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ECONOMIC INSIGHTS AND INVESTMENT UPDATES

To Buy or Not to Buy: Exploring the Leasing Option

Automobile leasing has grown in popularity over the past decade, but many people still hesitate to enter into a lease. This may be because there are so many factors to consider that it seems easier to buy a vehicle. Under the right circumstances, however, leasing an automobile can save you considerable money, and even taxes. No one can tell you which option is better without knowing your particular situation, but these factors may impact your decision.

How Does Leasing Work?

When you lease an automobile, you only pay for the portion of it that you use, or the amount by which it depreciates. Many people hesitate because, at the end of the lease, they don't own anything. But, that's exactly why lease payments are lower than loan payments. You're not buying the leftover value in the car—you're buying only what you use.

A lease payment consists of a depreciation charge and a finance charge. The finance charge is much like the interest you would pay on a car loan. The depreciation charge is determined by dividing the value of the car that you use by the number of months in the lease. Without considering the tax effects, the short-term cost of leasing compared to buying is about the same. This assumes that you sell your car after the loan is paid off for its full market value. But as you well know, this is often not the case, especially if the car is used as a trade-in. If you are apt to keep your car for 10 years, then buying may be your best option. What about the tax effects? Ultimately, the tax cost of leasing versus buying may be about the same. However, the timing of when you get the deductions can be greatly impacted by your decision

Claiming Tax Deductions on Leases

Because you do not own a car that you lease, you are not allowed to depreciate it. You can, however, deduct at least some of the cost of operating a car leased primarily for business purposes. Keep in mind that you are only allowed to deduct the business portion of the costs of a lease if the car is also used for personal purposes, such as commuting.

You have two options for figuring your deductible expense on a business vehicle that is leased for more than 30 days: the standard mileage rate allowance or actual expenses method. The standard mileage rate allowance is easier to calculate, but it may provide less tax relief than the actual expenses method if you do not drive a lot of miles or if your car is relatively expensive.

The standard mileage allowance is a cents-per-mile allowance that takes the place of deductions for lease payments; vehicle registration fees; and the expenditures on gas, oil, insurance, maintenance, and repairs. The standard mileage allowance rate for business use of a car—leased or owned—is 54.5 cents a mile in 2018. To figure out your deduction, simply multiply the rate by the number of miles driven.

The actual expenses method generally allows you to deduct all out-of-pocket expenses for operating your car for business, from lease payments to repair costs. If the car you have leased has fair market value in excess of the luxury vehicle threshold according to the IRS, your deduction is reduced by a so-called "inclusion amount," which is added to your gross income. This additional sum brings your deduction roughly in line with the depreciation you would have been able to claim as the car's owner.

Inclusion amount tables in IRS Publication 463 can help you determine the inclusion amount that applies in your case. Because the inclusion amounts increase from year to year in the course of a lease, you may want to consider taking out a lease with a term of no

more than two years.

Any advance payments on the lease must be deducted over the entire lease period. If you take out a lease with an option to buy, you can deduct the payments if the arrangement is set up as a lease. If, however, the arrangement amounts to a purchase agreement, the payments are not deductible.

Leases - Hidden Traps

Despite the limits on deductions for luxury vehicles, the available tax breaks for business owners are generous enough to make leasing an attractive alternative to buying—especially if you want to change cars frequently. Before you sign on the dotted line, consider the potential pitfalls involved in leasing:

Mileage limits: All leases have mileage limits, usually 12,000 or 15,000 miles. If it's probable that you'll rack up more miles, you could face costly penalties. Try to negotiate the mileage limit up in exchange for higher lease payments. Or, buy the car.

Open-end leases: In an open-end lease, the residual value is re-determined at the end of the lease. If the residual value is lower than initially projected, you have to make up the difference. Closed-end leases avoid this problem, but your payments may be higher.

Early termination: When leasing, be sure to keep the car for the entire lease period. Penalties for early termination are severe and are usually difficult to get out of. If you're not sure how long you'll keep the car, consider a shorter lease term or purchase it.

While laws require dealers to disclose more information on leases, key information can be buried in the fine print or omitted completely, like the interest rate that you are being charged. Be sure you completely understand the terms before signing on the dotted line. Leasing your next automobile can either make a lot of sense, or it can be a big mistake. Your tax professional can help you consider all of the factors and make the right choice. Certainly, the private foundation allows today's philanthropist the opportunity to manage substantial charitable gifts and to actually become involved in charitable work if he or she so chooses. It also affords the donor the opportunity to be recognized for charitable giving, while solidifying his or her philanthropic legacy. As with all advanced estate and tax planning, consult with your team of qualified legal, estate, and tax professionals to help ensure that you meet the goals and objectives of all involved parties.

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Family Foundations: Benefits Stretch Beyond Charitable Giving

Many affluent individuals view the **family foundation** as a means for meeting specific philanthropic goals. For some, it also creates visible evidence of a donor's charitable intent. In addition, a family foundation may serve two unique purposes within the confines of familial walls. A foundation can assist a donor in maintaining the integrity of his or her charitable intent for many years into the future, as well as help to inspire the character, sense of community, and love of knowledge of future generations.

Establishing a Philanthropic Legacy

A family foundation allows a wealthy donor to establish a set of ground rules for future charitable work, as well as provide heirs with incentives to carry forward the donor's (and family's) philanthropic legacy. However, this can only be achieved by carefully evaluating existing and potential family relationships and implementing proper planning.

Generation after generation, the grant-making agenda of new board members may begin to differ from that of the original donor. In addition, it is equally possible that the philanthropic vigor displayed by the original donor may be lost in future years. Hence, some donors choose to include at least one "outsider" seated on the foundation's board to provide stability and objectivity. However, the involvement of outside professionals can slowly move a family foundation toward the direction of a public foundation— something that the original donor may wish to avoid.

To alleviate these potential future problems, a donor can tie an incentive-based estate plan together with the family foundation. In doing so, the donor can create a family environment and attitude that is more consistent with the donor's goal of preserving the integrity of the foundation. Under such an arrangement, heirs are rewarded for overall participation and employment by the foundation, as well as the execution of the foundation's original mission.

Family Involvement: More Than an Incentive

Wealth certainly provides many heirs with an additional means to help meet specific goals. However, one of the greatest challenges that some heirs will face in their lifetimes is learning how to handle inherited wealth. For some parents or grandparents, teaching a child to be willing to learn complex financial subjects and management skills is an equally imposing challenge. In addition to providing a means for gaining insight into the importance of charitable giving, a family foundation can create an ideal platform for heirs to hone their financial management skills.

Heirs can be involved in a family foundation as volunteers, employees, and/or board members. As a volunteer or employee, an heir can gain valuable business management skills, as well as witness firsthand the positive impact charitable giving can have on the community. Heirs who are selected to become board members may further delve into the decision-making and grant-making process, which can foster greater accountability and further expand knowledge of financial matters.

If the donor already has several grown children who are regularly involved in the family foundation, he or she may consider making all of them board members. If this is logistically impractical, it may be wise to establish a rotating seat on the board. For instance, every two years, a different child could occupy a seat on the board.

Additionally, one might suspect that the age of a younger heir might limit his or her overall participation in the foundation. On the contrary, many donors welcome the opportunity to start heirs early when it comes to financial and philanthropic education. How young is too young? That depends on each individual set of circumstances. Generally, twelve- and thirteen-year-olds are certainly not too young to volunteer some of their time and begin to gain an understanding of charity.

In fact, it is fairly common for many donors to encourage their entire families participate, to some degree, in their foundation's activities. To enhance the learning experience, some donors have initiated creative methods for promoting life skills development, in addition to more traditional foundation activities. For instance, a donor could set up a contest in which each heir is responsible for managing $10,000 of the foundation's assets. After a specified period of time, all portfolios can be analyzed and discussed. Or, when younger, school-aged heirs are involved, a donor could establish an essay contest asking each heir to write about a charity they would wish to benefit. Again, all essays, when complete, can be reviewed and discussed. In both cases, modest prizes can be awarded to heirs whose portfolios yielded positive returns or whose essays were well written and topical. The benefits of such programs can be immeasurable for the participant, the donor, and ultimately, the foundation.

A Lifetime of Dividends

Without question, philanthropy is extremely important to many affluent individuals. At the same time, many wonder how they can instill in their children and/or other heirs a similar passion for philanthropic pursuits. In addition, many affluent individuals may be concerned about how they can teach future generations to handle wealth. When properly established, the family foundation can provide the means to accomplish these goals.

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Life Insurance: How Much is Enough?

You may already be aware of the importance of having enough life insurance coverage to handle financial matters that could affect your family in the event of your death. However, determining the appropriate amount of coverage for your family can be complicated. Rather than using an arbitrary formula, such as having enough coverage to equal five to seven times your annual salary, you may want to conduct a **"needs analysis".**

A needs analysis incorporates an evaluation of your family's most important financial obligations and goals. It can help you plan to address mortgage debt, college expenses, and funds for your family's future, as well as liquidity for meeting potential estate tax liabilities with life insurance coverage.

Mortgage Debt

You may want to consider whether your life insurance proceeds will be sufficient to help pay the remainder of the mortgage on your home. If you are carrying a large mortgage, you may need to increase your life insurance coverage. If you own a second home, you may also want to factor that mortgage into the formula.

College Expenses

Many people want life insurance proceeds to help cover their children's undergraduate college, and possibly graduate school, expenses. The amount needed can be roughly calculated by matching the ages of your children with projected college costs adjusted for inflation. Because it may be difficult to project costs that far into the future, it is important to revise this calculation periodically, as your children get closer to college age. When estimating long-term savings goals, it may also be a good idea to be as conservative as possible.

Your Family's Lifestyle

The amount you may need to help provide for your surviving spouse and dependents will vary according to your age, health, retirement plan benefits, Social Security benefits, and other assets, along with your spouse's earning power. Many surviving spouses may already be employed or will find employment, but your spouse's income alone may not be sufficient to cover your family's current lifestyle. Providing a supplemental fund can help your family maintain its standard of living in the event of your death.

Estate Taxes

Life insurance has long been recognized as a method for establishing liquidity at death to pay estate taxes and maximize asset transfers to future generations. Be sure to consult your qualified tax and legal advisors to help ensure the desired results.

Existing Resources

If your current assets and any other death benefits are sufficient to cover your financial needs and obligations, you may not need additional life insurance for these purposes. However, if they are inadequate, the difference between your total assets and your total needs may be funded with life insurance.

You must consider many factors when completing a needs analysis. In addition to the areas already mentioned, ask yourself the following questions:

As you evaluate your insurance needs, remember to assess your existing policies. Calculate the additional coverage you may need based on your family's financial obligations and any other resources, such as retirement benefits and personal savings. Planning now may help to protect your family's financial future.

1.
    - What are your estimated Social Security benefits at retirement?
    - How do you "inflation-proof" your family income, so the real purchasing power of those dollars does not decrease?
    - What is the earning potential of your surviving spouse?
    - How often should you review your needs analysis?
    - How can life insurance help provide resources for your retirement?
    - How do you structure your estate to reduce the impact of estate taxes?
    - Which of your assets are liquid and which would not be reduced by a forced sale?
    - Which of your assets would you want your family to retain for sentimental reasons or for future growth possibilities?

Maintaining a Successful Banking Relationship

Your bank constantly evaluates you and your business. They examine your financial statements, but also notice subtleties, such as your current financial health and well-being.

Remember, the nature of the banking business is to evaluate risk. As a business owner, your bank needs to know that all is well with your personal and business finances. If you provide them with information or signals that suggest you are having financial difficulty—and you do nothing to make them think otherwise—you might as well ask them to turn down your next loan request, raise your interest rate, or call your loan.

Appearances Matter

Obviously, your bank wants to continue a positive relationship, and they look to you to provide assurance for doing so. The fact is that while you or your business may be prospering, you may be sending them conflicting information. The following are some signals that may attract attention:

Making the Daily Review Lists. Most banks review daily lists of checks drawn on uncollected funds, overdraft accounts, and large transactions. If your account regularly appears on one of these lists, it could suggest that you are out of cash or otherwise headed for trouble.

They also review daily lists of past-due loans,loans with incomplete collateral documentation, and late financial statements. You may not consider late statements significant, but bankers do. They have learned that people are seldom late when they have good news. If you are slow to pay, banks may assume the worst.

Experiencing Cash Flow Problems. When you frequently request small loans to cover incidental expenses, banks may begin to assume that your business is not generating enough cash. Or, if you maintain high balances on your bank credit cards, a banker has the right to wonder why you are willing to pay high interest rates rather than pay off the balances. When your financial statement shows a large net worth and a small amount of cash, banks may worry that your debt service is exceeding your cash flow.

Changing Your Proposal. When you change your mind too often in your dealings with a bank, you may leave a negative impression. One fairly common situation that bankers encounter is a customer coming to the bank with a request for a specific loan amount. The banker gets it approved, and the customer then says more money is needed. Thus, the loan officer may need to take a proposal back to the loan committee.

Becoming Rough Around the Edges. When bankers evaluate the risk of a loan, they take a long, hard look at the borrower's current condition. In loan committee meetings, it is important to make certain you are sending the proper message. If loan officers notice a drastic change in your appearance or behavior, they may justifiably wonder what is wrong.

In addition, if the company's building site looks run-down, with peeling paint or disheveled landscaping, someone from the bank may notice. To the bank, it may look like you are not paying attention to the details of running your business or that you are unable to pay for basic maintenance.

Reflect, Then Act

If any of these descriptions sound uncomfortably familiar, consider developing a strategy for implementing changes now. Maintaining a good relationship with your bank is crucial to executing your business's financial plan. Whenever possible, eliminate minor problems today that could become roadblocks on your path to success tomorrow.

Whole Life Insurance: What You Should Know

When faced with the wide range of life insurance coverage available, you may wonder what type really fits your needs now and what coverage you should have in place for the future. A good first step is to understand basic whole life insurance coverage.

Whole life insurance provides a benefit in the event of death, and it also has the potential for tax-deferred cash value accumulation. Premium payments first pay the cost of pure insurance coverage, including the expenses and mortality factors of the insurance company. The company then invests the remaining premium dollars to build the cash value of the policy.

A second feature of whole life insurance is the predictability of expense. As long as the insured continues to pay premiums according to the contract, premium amounts will not change and will continue until the policy matures, which is when the cash value of the policy equals the face amount of the policy. The point at which premium payments cease is clearly stated in the policy (typically age 65, 75, 85, or 95). The length of the payment period will, of course, affect the dollar amount of the premium payments.

The guarantee of insurability is a third feature of whole life insurance policies. Once the policy is issued and as long as premium payment responsibilities are met, the insured is guaranteed coverage for life in accordance with the terms of the policy. Evidence of insurability is not required after the policy is issued, as long as the original policy remains in force.

The final feature to consider is the ability to borrow against the cash value of a whole life insurance policy. Funds may be borrowed against the cash value of the policy at any time, depending on the policy. It is important to note that access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can increase the chance that the policy will lapse, and may result in a tax liability if the policy is terminated before the death of the insured. Loan approval must come from the insurer, but it is fairly routine. No repayment schedule is set beyond the regular payment of interest on the loan, with outstanding loan balances deducted from the death benefit in the event of the insured's death.

Your Personal Life Insurance Needs

Once you have considered the life insurance options available, be sure to evaluate them in relation to your personal needs. If you seek an instant "estate" to provide for loved ones, or wish to cover certain financial obligations in the event of your death, then a whole life policy may be a viable option for you. Note: Whole life insurance policies are subject to fees and charges. Guarantees are based on the claims paying ability of the issuer.

It's Time to Conduct an Inventory

Try closing your eyes and listing your living room furnishings or the contents of your jewelry box. If you have trouble coming up with a complete tally, imagine how hard it would be after the stress of a fire or burglary.

Making a written inventory of your household valuables can be one of the best money-saving steps you can take. Property insurers are less likely to question claims based on such inventories, particularly if you submit photographs, videotape, receipts, or an appraiser's statement for valuable items. Your insurance company may even be able to give you a useful inventory form to fill out. Make sure to keep a copy of your inventory of household valuables with your insurance agent or in your safety-deposit box.

For the Record

Write down the date you purchased each item of value in your home, including its price. If an appraiser has estimated the value of any of your possessions, record the estimate and the date of the appraisal, making sure the appraisal is precise and explicit.

Describe each object in as much detail as possible. Be sure to include its age, brand name, size, model number, and other relevant facts. For example, for sterling silver tableware, note the manufacturer, pattern, and number of place settings. If your possessions are extensive and of particularly high quality, you may also consider videotaping and recording your verbal description of them.

In some categories of property, such as clothing, you may wish to group together a number of articles and attach a single estimate of value. Unless you have closets filled with designer originals, there may be no reason to complicate matters by describing everything in your wardrobe.

Remember, of all the ways to record your property, the worst one is memory. Because, if you don't remember you own it, neither will your insurance company.

Can a Living Trust Replace Your Will?

When planning your estate, you may consider setting up a revocable living trust. A properly managed revocable living trust can provide unique benefits; however, it does not completely replace a will. In determining whether this type of trust is appropriate for you, it helps to understand the overall benefits and tradeoffs of this estate planning tool.

A revocable living trust is created during your lifetime, and you can alter it in any way, and at any time. One key feature is that it allows you to retain control of the management and distribution of your assets.

The Probate Connection

Many people establish a revocable living trust to avoid probate, which is the legal process of settling your estate. Assets distributed from a trust upon your death do avoid probate. However, the probate process itself is not as burdensome for many estates as in the past. Many states have adopted the Uniform Probate Code, which greatly simplifies the process for many small- to medium-sized estates.

But, even with these improvements, the probated assets in your estate still become a matter of public record, which may raise privacy concerns. Avoiding probate may also be appropriate if you own properties outside your state of domicile, which may involve multiple probate proceedings.

Once you set up a revocable living trust, you must transfer your assets into the trust. Failing to do so will subject your assets to probate. Simply signing a trust document without retitling assets renders your living trust useless.

Do I Still Need a Will?

The short answer is yes. Generally, a revocable living trust cannot entirely replace the need for a will. There are some assets you may not wish to place in a trust. For example, it may be impractical to transfer tangible personal property such as automobiles, furniture, and jewelry to a trust. Consequently, some of your assets will remain outside your trust, making a will necessary to name your intended beneficiaries of those particular assets. If you have minor children, a will may also be used to designate a guardian for them.

Other assets may require special consideration. For example, retirement plan accounts (Individual Retirement Accounts (IRAs), 401(k)s, and profit-sharing plans) cannot be retitled to a living trust, although you could change the beneficiary designation to the trust. However, naming someone other than a spouse as beneficiary of a qualified retirement plan often requires spousal consent, because in many states, spouses now have rights to retirement plan benefits. In addition, naming your trust, rather than your spouse, as the beneficiary of your qualified retirement plan may have income tax consequences at the time of your death.

Trusts and Taxes

Your legal professional can help you examine all the variables affecting your property—the type of assets (e.g., real estate, life insurance, bank accounts, savings, business interests, and personal property), where they are located, and how they are titled to determine if a revocable living trust can help you meet your short- and long-term estate planning goals.

Straighten Up Your Financial House!

Is your financial house in order? From time to time, it's good to review and organize. Use some of the following helpful hints to make the task a little easier and more effective:

1. Clean the "attic." That's the spot where you have stored items such as old, unused credit cards, bank account statements for accounts under $10, and savings bonds you forgot to redeem. Settle these accounts accordingly.
2. Refurnish your credit "room." This step can include refinancing your mortgage while mortgage rates remain low or possibly transferring credit card balances to lower rate alternatives. It can be especially pleasing to empty the "room" of some credit commitments by paying them off completely, thus freeing up funds for other expenses.
3. Consider a complete renovation. It's likely that your short- and long-term financial goals will change over time. A regular review can help you determine if your savings plan remains sufficient. You may be at a stage in life that requires different tactics.
4. Look at future "housing" needs. Will you have enough savings to fund your desired retirement lifestyle? Boost your savings by contributing to an employer-sponsored retirement plan, such as a 401(k) plan, if one is available to you. You may also want to consider other tax-advantaged retirement savings vehicles, like Individual Retirement Accounts (IRAs) and Roth IRAs.
5. Solidify your "foundation." Now may be a good time to review your life insurance policies. The plan you established years ago may need to be updated according to your current needs. Setting up an annual review can help ensure the adequacy of your coverage.v
6. Protect your home. Update your homeowners insurance policy and make a videotape inventory of your homeâ€”both inside and out. Be sure to document your valuables. Store the tape in your safe-deposit box, and add to it as the need arises.
7. Dust off your tax records. You never know when the IRS may inquire about your old tax returns, so make sure they are in order. You may also want to speak with your tax professional regarding strategies to minimize your tax bill.
8. Establish a regular "maintenance" program. If you haven't done so previously, set up a budget. Make "paying yourself first"—putting a set amount into your savings and investments every monthâ€"a priority. Analyze your current spending habits, and be sure to plan ahead for large bills and expenses.

It is always more relaxing to live in a clean and orderly home. By taking these steps, your financial "home" may become an inviting, enjoyable corner of your life! $

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