

THE BARE ESSENTIALS

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PLANNING WITH PURPOSE. PLANNING WITH CARE.

Wealth Transfer

A common aspect of many family financial plans includes wealth transferring. This may also be called "estate planning," but we believe that estate planning is only one part of the larger wealth transfer. While the discussion about wealth transfer varies strongly among families, we believe there are six common decisions that need to be discussed throughout the process. Each decision includes various principles and questions to ask ourselves.

Transfer decision. *Deciding who receives the inheritance, be it a farm, business, or other assets. Some of the principles to consider are the treasure principle, which states that you can't take your wealth with you, but you can send it ahead of you (Matthew 6.19-21); the unity principle, affirming that your spouse completes you, and is not competing with you (Ecclesiastes 4.9-12); and the wisdom principle, stating that before you transfer wealth, you should first transfer wisdom (Proverbs 20:21). A question to ask yourself is "What is the worst/best thing that can happen if I transfer wealth to _____? How likely is this to occur?"*

Treatment decision. *Deciding how much each heir will receive. The underlying principle is that you love your children equally, and as such, you should treat them uniquely. Fairness may not always mean equality. Some questions to ask: "How do your children, their spouses, and your grandchildren handle material goods? How would adding money effect this marriage? What will the impact on a family be if they receive this wealth?"*

Timing decision. *Figuring out when to transfer the wealth. A principle within this includes an acknowledgment that the timing of the transfer needs to maximize the use of the wealth by you, your heirs, and the the charities you support. Ron Blue says you should "Do your givin' while you're livin' so you knowin' where it's goin'." Questions to ask yourself: "When can we be most helpful to our children financially? How can I be sure that a ministry won't change over time?"*

Title decision. *Transferring the title of various assets. The foundational principle for all financial planning bears reminding here, in that God owns it all. We are stewards of what's given to us, and that includes how we pass that along. Some good questions to ask include: "Is the next steward chosen, and prepared? What if the family business becomes extremely valuable in 20, 30, 40, or 50 years from now? What if the family business becomes worthless?"*

Tools and techniques decision. *Transferring and managing the transfer. This is the segment of "estate planning," and in its context, you*



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AT A GLANCE

2011 Tax Changes

A HOST OF TAX PROVISIONS ENACTED IN 2001 AND 2003--COMMONLY REFERRED TO COLLECTIVELY AS "BONNY AND CLEVER"--WILL EXPIRE AT THE END OF THE YEAR. WHILE IT'S POSSIBLE THAT NEW LEGISLATION COULD EXTEND SOME OR ALL OF THESE PROVISIONS, THE POLITICS MAKE IT DIFFICULT TO PREDICT WHAT ACTION, IF ANY, CONGRESS WILL TAKE. WITH THAT IN MIND, THE MAJOR CHANGES THAT ARE SCHEDULED FOR 2011.

Federal income tax brackets

Right now, there are six income tax brackets: 10%, 15%, 25%, 28%, 33%, and 35%. For 2010, these brackets apply to married couples filing joint federal income tax returns in the following manner.

Taxable Income	Marginal Tax Rate
Not over \$16,750	10%
Over \$16,750 to \$68,000	15%
Over \$68,000 to \$137,300	25%
Over \$137,300 to \$209,250	28%
Over \$209,250 to \$373,650	33%
Over \$373,650	35%

2010 Income Tax Brackets Married Filing Jointly

As it stands now, there will be no 10% bracket for 2011, and the remaining bracket rates will return to their original 2001 levels: 15%, 28%, 31%, 36%, and 39.6%.

Long-term capital gains tax rates

For 2010, if you sell shares of stock that you've held for more than a year, any gain is a long-term capital gain, generally taxed at a maximum rate of 15%. If you're in the 10% or 15% marginal income tax bracket, however, you'll pay no federal tax on the long-term gain (a 0% tax rate applies). That means if you're a married couple filing a joint federal income tax return, and your taxable income is \$68,000 or less, you pay no federal tax on the gain.

However, these rates expire at the end of 2010. Beginning in 2011, a 20% rate will generally apply to long-term capital gains. Individuals in the 15% tax bracket (remember, there won't be a 10% bracket in 2011) will pay the tax at a rate of 10%. Special rules (and slightly lower rates) will apply for qualifying property held for five years or more. Finally, while qualifying dividends are taxed in 2010 using the same capital gains tax rates described above (i.e., 15% and 0%), in 2011 they'll be taxed as ordinary income subject to the increased 2011 tax brackets.

The estate tax

There is currently no estate tax for 2010, and special rules are in place that govern the way basis is calculated for property passing upon death. The estate tax reappears in 2011, however, with a \$1 million exclusion amount (meaning that up to \$1 million of assets will be exempt from estate tax) and a top tax rate of 55%. To put that in context, for 2009, the top estate tax rate was 45%, and estates received an exclusion of \$3.5 million.

Year	2009	2010	2011
Estate Tax Exclusion	\$3.5 Million	n/a	\$1 Million
Top Estate Tax Rate	45%	No Tax	55%

Wealth Transfer

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AS THE “BUSH TAX CUTS”--EXPIRE AT THE END OF THESE EXPIRING TAX PROVISIONS, ELECTION-YEAR PLANNING IS AT THE TOP OF YOUR MIND, HERE’S WHAT YOU NEED TO KNOW ABOUT

Other important changes

Other changes for 2011 include:

- Phaseout of itemized deductions and exemption amounts--Itemized deductions and personal exemption amounts will once again be phased out for higher-income individuals
- The “marriage penalty” returns--Changes made to correct the federal income tax “marriage penalty” expire at the end of 2010, resulting in a reduced standard deduction amount and lower tax bracket thresholds (i.e., higher rates will apply at lower income levels) for married couples filing jointly in 2011
- Tax credits get cut--The child tax credit will be reduced and both the Hope education tax credit and the earned income tax credit become less generous (the Making Work Pay tax credit also disappears)
- Section 179 small business expensing--The increased IRC Section 179 expense limit ends (Section 179 allows small businesses to elect to expense the cost of qualifying property rather than recover the cost through depreciation deductions); the amount that a small business may expense will drop from \$250,000 in 2010 to \$25,000 in 2011

can see how it is only a piece of a larger puzzle. Governing principles: tools and techniques accomplish objectives – they are not the objective themselves; never use a trust because of a lack of trust; and keep your estate matters as simple as possible. And a good question to ask yourself is “Do my advisors share the same values as me? And if not, how big of a deal is this?”

Talk decision. *Communicating the specifics of your plans. This decision and conversation needs to be an ongoing one, as it allows a family to align their individual expectations with reality. Some principles to consider: family conferences are a great opportunity to promote family harmony and unity, to train the next generation in goals, values, priorities, etc., to educate the next generation, and serve as a venue for a formal transfer of stewardship. Some questions to ask: “What do you see as your risk in a family conference? How would you like for the wealth you transfer to be managed? Do you trust your children to make good financial decisions? Can the lack of trust be overcome? How?”*

Looking back over the six decisions, you’ll notice that the actual tools used for the wealth transfer are preceded by four crucial steps. Possibly the most common mistake that many families make is jumping first to the “how” before addressing the “why.”

A holistic view of stewardship encompasses not just our wealth management, but the training and communicating with those who are to be the next stewards. Taking an approach as outlined above better enables families to utilize stewardship principles from the beginning to the end of the wealth transfer.



