Capital Intelligence Associates
Arthur Kraus, ChFC, CLU, CAP
Mitchell Kraus, CFP®, CLU, ChFC, CAP
1250 6th Street, Ste. 300
Santa Monica, CA 90401
310-820-9797
akraus@capintelligence.com
www.capintelligence.com

CIA Report

Financial Intelligence

CIA Wins SM SQA Grand Prize

We are proud to announce that Capital Intelligence Associates won a grand prize for the Santa Monica Sustainable Quality Awards. The SQA's are a joint partnership between the City of Santa Monica, the Santa Monica Chamber and Sustainable Works and have been given out for 20 years.

According to their website " *Santa Monica's Sustainable Quality Awards are the oldest and most recognized sustainable business awards in Southern California. The awards are intended to educate and inspire local businesses to adopt sustainable practices and support Santa Monica as a sustainable community"*

For 2015, there were a record 54 nominated businesses, and 19 finalists. There were three grand prize winners. CIA was the only small business to win a Grand Prize.

The SQA is an annual event that promotes the efforts of local businesses that have made significant achievements in the areas of sustainable economic development, social responsibility, and stewardship of the natural environment. Nominated businesses can apply in each of the three categories, and excellence awards are given to those who are successful in one or two of these areas. Grand Prize winners are deemed excellent in all three.

According to their website, successful applications will speak to the criteria demonstrating excellence in the following ways:

Innovation: That the organization has demonstrated leadership in sustainability by being among the first in the Santa Monica area to create or adopt a more sustainable strategy, method, process, procedure or technology.

Commitment: That the organization is participating in a comprehensive or significantly greater number or degree of sustainable practices than the typical area business in its industry.

Documented Results: That the organization has reported the measurable results of their adoption of sustainable practices.

The applications are comprehensive. Below are some sections from our application:

Economic Development : One mission of our firm, trying to help others build wealth, was the starting point for this category. We demonstrated that we have helped clients build and pass along wealth beyond financial, but kept in mind matching their values with their investments. We have worked across generations assisting clients with developing comprehensive family and philanthropic plans.

Social Responsibility : We demonstrated our commitment to our staff by having a positive work environment. We offer cutting edge benefits. We take our obligation to our community seriously by donating our time and treasure to local organizations that need our expertise. We aid clients with restructuring their assets so as to give less to taxes and more to charity and to heirs.

Stewardship of the Natural Environment : The Kraus' both have electric cars. Our office has had a steady decrease of paper usage as we are working towards a paperless environment. Very helpful was that we've influenced more than just our company. We've worked with our suitemates and our landlord to reduce their waste. Because of our efforts, the attorneys we house with now use recycled paper for the 15,000 or so sheets they use each month. (We're usually under 1,000.) Our building, based on our recommendations, changed some lighting to save electricity and, as a result, saved themselves some money too.

The tagline to our company name is "Because It's Your Legacy". We want to do our best to live our values. We owe a positive legacy to ourselves, our families, our friends and clients, and our community. We, also, would like to leave a legacy for the worlds' future generations. If we can help you achieve your legacy, it would be our privilege.

Santa Monica Sustainable Quality Awards Lunch is Thursday, April 16th at the Le Meridien Delfina Hotel, 530 Pico Blvd., Santa Monica. Tickets can be purchased at SMSQA.com. We hope you can join us. Please let us know if you have any questions.

April 2015

CIA Wins SM SQA Grand Prize
Special Needs Trusts
When Your Child Asks for a Loan, Should You Say Yes?
Cartoon: It's Tax Time!

CAPITAL INTELLIGENCE ASSOCIATES

Special Needs Trusts

In 1993, Congress officially approved the use of SNTs to maximize the use of all available resources, both private and governmental, to provide more fully for the needs of the disabled.

For tax years beginning after December 31, 2014, states can establish and operate ABLE programs, allowing the establishment of ABLE accounts, which are intended to help pay for the qualified disability expenses of eligible individuals. These accounts won't replace SNTs but may be used as part of an overall strategy.

A special needs trust* (SNT), sometimes referred to as a supplemental needs trust, is a trust that is established to benefit a disabled person or a person who has special needs, while still allowing that person to qualify for and receive government health-care benefits.

*There are costs and expenses associated with the creation of a trust.

Background

Some government programs aimed at assisting the disabled, such as Medicaid and Supplemental Social Security Income (SSI), are needs-based. That means if the disabled individual has access to more than a specified level of resources (generally $2,000), he or she will not be eligible to receive such benefits. In 1993, Congress officially approved the use of SNTs to maximize the use of all available resources, both private and governmental, to provide more fully for the needs of the disabled.

For persons of limited means, government programs may constitute the primary, if not the only, source of funding for their current and future needs. However, government assistance may also be available to families who have resources available to meet their loved one's basic needs. These families may be fortunate enough to be able to use their personal resources to provide for non-basic needs as well. With an SNT, the disabled person is able to first tap into any government benefits to which he or she is entitled, and then can spend personal resources as a secondary source for additional support and comfort.

Types of SNTs

There are three types of SNTs: a self-settled or first-party SNT, a pooled SNT, and a third-party SNT.

Self-settled or first-party SNT

A self-settled or first-party SNT is created for the sole benefit of a disabled person who is under age 65. The trust must be established by the disabled person's parent, grandparent, or guardian, or by the court, but it cannot be created by the disabled person. However, the disabled person can fund the trust. For example, the disabled person could fund the trust with money that has been inherited or received in settlement of a lawsuit, or as a result of a divorce.

As previously stated, in order to qualify for Medicaid or SSI, the person who is enrolling must have a limited amount of income and resources. Generally, Medicaid and SSI will look back 60 months to see if assets have been transferred to someone else in order to qualify for benefits, and if so, a penalty is imposed. The penalty will be that the person who is enrolling won't be able to receive benefits for a certain amount of time. Transferring assets to an SNT, however, does not trigger these look-back provisions.

The other benefit of this SNT, of course, is that assets in the trust will not be countable as resources for eligibility purposes.

One disadvantage, however, is that upon the disabled individual's death, any money or assets remaining in the trust must be used to reimburse the government for Medicaid benefits extended to the individual during his or her lifetime.

Pooled SNT

A pooled SNT is a trust that is managed by a nonprofit organization. Funds are pooled for investment purposes, but separate subaccounts are maintained for each disabled beneficiary. A pooled SNT works in the same way as a self-settled or first-party SNT. However, with a pooled SNT, the disabled individual can create the account for himself or herself.

Furthermore, any funds remaining in the account upon the individual's death can be used to pay back Medicaid, or they can remain in the pooled SNT to help others in the pool, depending on state law.

Third-party SNT

A third-party SNT is a trust created by a disabled person's parent or other third party, but this type of SNT has no payback requirement. The person establishing the trust must not have a duty to support the disabled child, so the child must be age 21 or older, depending on state law. There is no requirement that the disabled person be under the age of 65. However, transfers to a third-party SNT may or may not trigger the Medicaid or SSI penalty period. Again, it depends on state law.

Conclusion

An SNT requires careful drafting and administration to avoid disqualification for government benefits. Be sure to consult a specialist.

CAPITAL
INTELLIGENCE ASSOCIATES

When Your Child Asks for a Loan, Should You Say Yes?

Perhaps you have plenty of money to lend, and you're not earning much on it right now, so when your child asks for a loan, you think, "Why not?" But even if it seems to be the right thing to do, look closely at potential consequences before saying yes.

You raised them, helped get them through school, and now your children are on their own. Or are they? Even adult children sometimes need financial help. But if your child asks you for a loan, don't pull out your checkbook until you've examined the financial and emotional costs. Start the process by considering a few key questions.

Why does your child need the money?

Lenders ask applicants to clearly state the purpose for the loan, and you should, too. Like any lender, you need to decide whether the loan purpose is reasonable. If your child is a chronic borrower, frequently overspends, or wants to use the money you're lending to pay past-due bills, watch out. You might be enabling poor financial decision making. On the other hand, if your child is usually responsible and needs the money for a purpose you support, you may feel better about agreeing to the loan.

Will your financial assistance help your child in the long run?

It's natural to want to help your child, but you also want to avoid jeopardizing your child's independence. If you step in to help, will your child lean on you the next time, too? And no matter how well-intentioned you are, the flip side of protecting your child from financial struggles is that your child may never get to experience the satisfaction that comes with successfully navigating financial challenges.

Can you really afford it?

Perhaps you can afford to lend money right now, but look ahead a bit. What will happen if you find yourself in unexpected financial circumstances before the loan is repaid? If you're loaning a significant sum and you're close to retirement, will you have the opportunity to make up the amount? If you decide to loan your child money, be sure it's an amount that you could afford to lose, and don't take money from your retirement account.

What if something goes wrong?

One potential downside to loaning your child money is the family tension it may cause. When a financial institution loans money to someone, it's all business, and the repayment terms are clear-cut. When you loan money to a relative, it's personal, and if expectations aren't met, both your finances and your relationship with your child may be at risk.

For example, how will you feel if your child treats the debt casually? Even the most responsible child may occasionally forget to make a payment. Will you scrutinize your child's financial decisions and feel obligated to give advice? Will you be okay with forgiving the loan if your child is unable to pay it back? And how will other family members react? For example, what if your spouse disagrees with your decision? Will other children feel as though you're playing favorites?

If you decide to say yes

Think like a lender

Take your responsibility, and the borrower's, seriously. Putting loan terms in writing sounds too businesslike to some parents, but doing so can help set expectations. You can draft a loan contract that spells out the loan amount, the interest rate, and a repayment schedule. To avoid playing the role of parent-turned-debt collector, consider asking your child to set up automatic monthly transfers from his or her financial account to yours.

Pay attention to some rules

Having loan documentation may also be necessary to meet IRS requirements. If you're lending your child a significant amount, prepare a promissory note that details the loan amount, repayment schedule, collateral, and loan terms, and includes an interest rate that is at least equal to the applicable federal rate set by the IRS. Doing so may help ensure that the IRS doesn't deem the loan a gift and potentially subject you to gift and estate tax consequences. You or your child may need to meet certain requirements, too, if the loan proceeds will be used for a home down payment or a mortgage. The rules and consequences can be complex, so ask a legal or tax professional for information on your individual circumstances.

If you decide to say no

Consider offering other types of help

Your support matters to your child, even if it doesn't come in the form of a loan. For example, you might consider making a smaller, no-strings-attached gift to your child that doesn't have to be repaid, or offer to pay a bill or two for a short period of time.

Don't feel guilty

If you have serious reservations about making the loan, don't. Remember, your financial stability is just as important as your child's, and a healthy relationship is something that money can't buy.

CAPITAL
INTELLIGENCE ASSOCIATES

Capital Intelligence Associates
Arthur Kraus, ChFC, CLU, CAP
1250 6th Street, Ste. 300
Santa Monica, CA 90401

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.