Financial Management and Estate Planning

Chris Penrose, Associate Professor, OSU Extension

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More Money, More Problems

"How and Why Athletes Go Broke"

- Sports Illustrated, 2009
- 70% of professional football, baseball, and basketball players are in financial distress within 5 years of retirement
- How does this happen?

- Bad Advice
  - Do not seek counsel
  - Take Advice from family/friends over professionals
- Poor Investment Choices
  - Invest in new businesses they do not understand
  - Private Equity/Private Investments
- No Plan
  - Unrealistic expectation of how long income will last
  - Unhealthy spending habits, growing spending into the level of income
  - Expecting the level of income to continue
  - Financial planning too boring or too complicated to spend time on

How does this apply to me?

- Similar Taxation
  - 40-50%
- Large up-front payment
  - Lease Bonus Payment
- High and potentially short lived period of income
  - Royalties from Production, declining prices
- Complicated Financial Situation
  - Tax Planning
  - Estate Planning
  - Retirement Planning
- Sudden Wealth Syndrome

Sudden Wealth Syndrome

Aka: "The Lottery Winner Syndrome"

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What is Sudden Wealth?

- **<u>Sudden Wealth</u>** is defined as the expected or unexpected receipt of an amount of money that is significantly different than one typically has available to them.

- Anxiety
- Money Related Ruminations
- "Stock Shock"
- Trouble Sleeping
- Irritability
- Guilt
- Paranoia
- Depression/Isolation
- *Excessive Spending*
- *Excessive Frugality*

The Dynamics of Wealth

- Family
  - Increased family interaction
  - “They can afford it”
  - What about the kids’ view of money?
  - Do not feel pressured to be the family bank
- Friends
- Charitable Organizations
  - Most Non-Profit Organizations have a person or team responsible for soliciting gifts.
  - Keep in mind: You cannot help everyone…

Planning for Success

- Build a Team
- Create a Plan
- Implement the Plan
- Review the Plan

The Team

- Attorney(s)
  - Estate Planning
  - Oil & Gas
  - Business
  - Real Estate
- Accountant
  - Certified Public Accountant (CPA)
- Financial Advisor
- Insurance Provider

- Banker
  - Mortgages
  - Business/Farm Loans
  - Equipment Loans and Leasing
- *Therapist/Counselor?
- Sooner is better!
  - It is much easier to avoid issues than to try to fix them after they occur…

Creating the Plan

- What information might you be asked to discuss?
- **Personal Information**
  - Age/DOB
  - Address
  - Spouse,Kids, Etc…
- **Income Information**
  - Employment
  - Rental(s)
  - Mineral Activities
  - Pension(s)
  - Other?

- **Taxable Assets**
  - Savings/Checking Accounts
  - Bank CD's
  - Taxable Investment Accounts
- **Retirement Assets**
  - IRA/Roth IRA's
  - 401k's
  - SIMPLE IRA's
  - Other?
- **Personal Assets**
  - Real Estate
  - Collectibles
  - Cars

- **Business Assets**
- **Insurance Policies**
  - Life Insurance
  - Annuities
  - Umbrella Policies
- **Liabilities**
  - Mortgage(s)
  - Credit Cards
  - Auto Loans
  - Lines of Credit
  - Student Loans
  - Business/Equipment Loans
  - Any Unrecorded Debts

A good plan will address 5 Key Items:

- Where am I?
  - What does my overall financial picture look like right now?
- Where would I like to go?
  - Desired retirement income?
  - Health care during retirement?
  - Personal achievements?
- When would I like to get there?
  - When can I retire?
  - When do I transfer the business or farm?
  - When should I begin collecting Social Security, Medicare, Etc…
- How do I get there?
  - Financial/Retirement Plan
  - Business/Succession Plan
- What happens when I am gone?
  - Estate Plan

Implement & Review the Plan

- Financial planning is an ever-changing process
- In general try to keep to the following schedule:
  - ***Monthly*** phone conversations
  - ***Quarterly*** investment reviews
  - ***Annual*** financial plan reviews
  - Insurance reviews every 3 years
  - Estate Plan reviews every 4-5 years
- Make sure that your team members talk to one another!

Income Planning & Royalty Payments

- What can I spend now?
  - Emergency savings account
  - Future tax liabilities
  - Purchase of new equipment
  - Ongoing cash flow needs
- The income stream from mineral rights is often unpredictable.
  - Planning for variable income stream
  - Higher payouts at beginning of development and production

Financial Planning – Planning Your Future

Commonly Asked Questions:

- What should I set aside for emergencies and retirement?
- I want to buy some new farm equipment. Should I use the proceeds from drilling on my land or should I take out a loan to purchase the equipment?
- Should I use the proceeds from the royalties to pay off my mortgage?
- What is included in a Financial Plan?

Investment Planning – What Should I Do?

Commonly Asked Questions:

- How do I decide what to do with the funds?
- Should I keep them in a savings account?
- Should I invest them in the Stock Market? What are the risks?
- In the current low interest rate environment, what investment options are available to produce current income?

Wealth Preservation – Risk Management

- Commonly Asked Questions:
  - Are my assets now exposed to new liabilities?
  - What are the FDIC coverage limits on my bank accounts?
  - What are the insurance coverage limits on other investment accounts?

Wealth Preservation – Current Assessment

- What if I have already made an investment decision, but am not sure it was the right thing to do?
- Account Review. It's always good to get a second opinion.

Federal Income Tax Rates
<u>2014</u> (Married Filing Jointly)

<$18,150	taxed at 10%
$18,151-$73,800	taxed at 15%
$73,801 - $148,850	taxed at 25%
$148,851 -$226,850	taxed at 28%
$226,851 - $405,100	taxed at 33%
$405,100 - $457,600	taxed at 35%
> $457,600	taxed at 39.6%

Federal Income Tax Rates
2014 Single

<$9,075	taxed at 10%
$9,076-$36,900	taxed at 15%
$36,901 - $89,350	taxed at 25%
$89,351 -$186,350	taxed at 28%
$186,351 - $405,100	taxed at 33%
$405,101 - $406,750	taxed at 35%
> $406,750	taxed at 39.6%

Ohio Income Tax Rates 2014

Ohio Taxable Income	Tax Calculation
0 – $5,200	0.528%
$5,200– $10,400	$27.46+ 1.057% of excess over $5,200
$10,400 – $15,650	$82.42+ 2.113% of excess over $10,400
$15,650 – $20,900	$193.35 + 2.642% of excess over $15,650
$20,900 – $41,700	$332.06 + 3.169% of excess over $20,900
$41,700 – $83,350	$991.21 + 3.698% of excess over $41,700
$83,350 – $104,250	$2,531.43 + 4.226% of excess over $83,350
$104,250 – $208,500	$3,414.66 + 4.906% of excess over $104,250
More than $208,500	$8,529.17 + 5.333% of excess over $208,500

- Note: The brackets listed for 2014 reflect the annual adjustment that was made in July 2014 and reflect a 10.0 percent reduction compared to tax year 2012.

Estate Taxes

- Commonly Asked Questions:

- ➢ Do I need to seek Estate Planning Advice?
  - Should I take another look at my Will? My Financial Situation has changed.
  - Does the creation of a trust make sense?
- ➢ Do I need Financial and Healthcare Powers of Attorney?
- ➢ How would the inheritance tax, on royalties not collected yet, affect future beneficiaries?
- ➢ How much of my wealth, if any, should I gift to my children (equal vs. equitable)?
- ➢ Is a Succession Plan for my farm or family business something I should consider?
- ➢ Do I need Life insurance to provide for the payment of death taxes?

Estate Planning

- We recommend that everyone have a few basic estate planning documents in place:
  - Will
  - Financial Power of Attorney
  - Healthcare Power of Attorney
  - Trust?
  - Living Will?
  - We recommend that you meet with a qualified attorney who specializes in estate planning matters to discuss your estate plan.

Estate & Gift Planning

- Gifting limits (Current limits for 2015)
  - $14,000 per year per person
  - $70,000 per person into Section 529 Education Savings Plans (5 years)
- Gifts are irreversible – you cannot get them back
- What is the best way to make gifts?
  - Cash gifts to children become subject to the child's creditors, etc.
- Estate & Gift Tax Lifetime Exemption (based on current laws)
  - $5,430,000 per person, indexed for inflation

Net Investment Income Tax

- A new 3.8% surtax began January 1, 2013 on investment income for $ amount over $200,000 (single) or $250,000 (MFJ).
- 3.8% tax on smaller of net investment income or excess of adjusted gross income.
- Investment income includes: interest, dividends, capital gains, annuities, royalties, passive rental income.

Additional Medicare Surtax

- An additional 0.9% medicare tax was added in 2013, if over the threshold.
- Threshold amounts are $200,000 (single) or $250,000 (MFJ).
- No employer match required to the amount owed by the employee.

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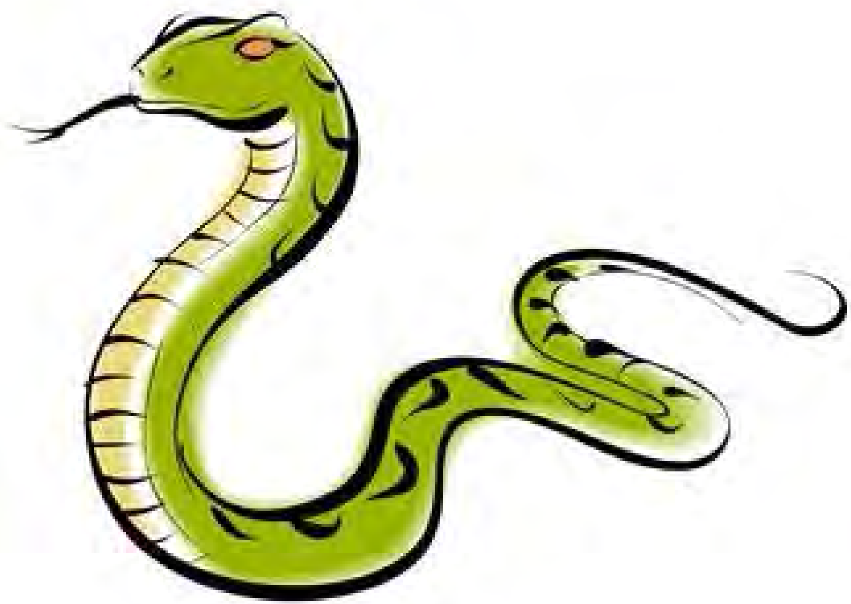
How does the IRS know you received money?

- Lease payments reported to landowner on 1099 MISC, Box 1, Rents
- Royalty payments reported to landowner on 1099 MISC, Box 2, Royalties


9595 VOID CORRECTED
PAYER'S name, street address, city, state, ZIP code, and telephone no.
1 Rents $
2 Royalties $
OMB No. 1545-0115
2011
Form 1099-MISC
Miscellaneous Income
3 Other income $
4 Federal income tax withheld $
Copy A For Internal Revenue Service Center
File with Form 1096.
PAYER'S federal identification number
RECIPIENT'S identification number
5 Fishing boat proceeds $
6 Medical and health care payments $
RECIPIENT'S name
7 Nonemployee compensation $
8 Substitute payments in lieu of dividends or interest $
For Privacy Act and Paperwork Reduction Act Notice, see the 2011 General Instructions for Certain Information Returns.
Street address (including apt. no.)
9 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale ►
10 Crop insurance proceeds $
City, state, and ZIP code
11
12
Account number (see instructions)
2nd TIN not.
13 Excess golden parachute payments $
14 Gross proceeds paid to an attorney $
15a Section 409A deferrals $
15b Section 409A income $
16 State tax withheld $ $
17 State/Payer's state no.
18 State income $ $
Form 1099-MISC Cat. No. 14425J Department of the Treasury - Internal Revenue Service

Beware of Snakes



If you want to lease…

- Are you sure your land can be leased?
- If you lease and get a bonus payment, have a plan and plan for the taxes (you can reduce them somewhat).

If this happens, plan

- Without proper financial planning, your spending will rise to your level of income and when revenue decreases, you could be worse off.
- Where will you put your money?
  - Pay debt
  - Save
  - Invest
  - Philanthropy
  - Buy toys (unless you are taxed at 100%, buying something you do not need will cost you money)

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