

Winter 2016

From the Fiduciary Services Desk

More about Charitable Gifts from IRAs

As noted in the accompanying newsletter from the Individual Clients Group, the ability of an IRA owner aged 70 ½ or older to make charitable gifts directly from an IRA is now blessed with permanent status. This change in the tax law is a much more practical provision than the year-end retroactive inclusion of the same provision in an annual package of “tax extenders.”

Each year we help some clients for whom we manage IRAs analyze whether to use their IRA as a charitable gifting vehicle. It will be nice to have some predictability as to the tax treatment. Our clients have received tremendous satisfaction from using this strategy to fund short and long term charitable projects.

Pfizer Allergan Merger: Inversion = Capital Gains

Many of our clients have large positions in Pfizer. If the merger with Allergan is approved by European and U.S. regulatory agencies, Allergan will become the parent company of the combined entity and Pfizer headquarters will move to Ireland. Importantly, U.S. holders of Pfizer will recognize a taxable gain (but not a loss) upon the consummation of the deal.

For Pfizer stock held in tax-deferred accounts (e.g., IRAs), there will be no practical tax effect. No capital gains tax applies to sales within traditional IRAs because they are tax-deferred vehicles and all distributions are ultimately taxed at ordinary income tax rates.

If you own Pfizer stock in taxable accounts you may want to consider methods to defer or reduce the capital gains tax. For clients with charitable intent, these methods range from the simple (an outright gift to charity) to the more complex (funding a charitable remainder trust through which you can receive a stream of income, receive a charitable deduction, and defer the capital gains tax). **To be effective, these steps must be taken before the merger is approved.** We help our clients explore and execute these options and would be happy to have a conversation with you about them.

KYC – The “Know Your Client” Rules a/k/a The Twelve Labors of Hercules

Those of you who have tried to establish a bank, brokerage or investment account in the past few months have no doubt become familiar with the “know your client” or “KYC” rules. In addition to the usual information (name, date of birth and federal Social Security number so that you can be checked against the terrorist watch list), financial institutions are now required to ask a deeper layer of questions about employment, sources of income, sources of wealth, and account beneficiaries (including the beneficiaries’ date of birth, Social Security number,

etc.). The goal of these rules is to be sure that no money is being funneled from, or to, any terrorist, drug related or corrupt foreign organizations or individuals.

A few months ago we set up a custody account for a foundation for which we will be providing management services, and getting over the KYC hurdles was akin to the twelve labors of Hercules. Since then we have been through the process several times for new relationships and it seems to be getting smoother as compliance folks have gotten more comfortable with digesting the information.

Large bureaucratic organizations and the maze of requirements can be challenging. We are glad to quarterback the process for our FSG wealth management clients. At Reid and Riege, we DO know our clients, not through some pro-forma set of bureaucratic mandates, but through long relationships and often multiple generations. As we begin this New Year, these relationships are chief among the things for which we are most grateful: Know your client indeed.

If you are interested in learning more about the fiduciary services we provide, please contact any Individual Clients Group attorney listed below or call David Sullivan directly at (860) 240-1022.

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