TCV TRUST & WEALTH MANAGEMENT

The TRUST COMPANY of Virginia

2018 SPRING NEWSLETTER

401k Rollover: Considering Your Options

Planning for retirement so that you can fully enjoy it should be a positive, exhilarating experience. After decades of hard work, the fruits of your labor are just around the corner.

However, where asset management and wealth preservation are concerned, the devil is in the details.

Rolling over a 401(k) is a prime example. Getting the most from these funds requires weeding out inaccuracies and carefully minding the calendar. One miscalculation could result in lost tax deferrals or stiff penalties. One ill-advised decision could have a significant and lasting impact on your future.

That's where TCV comes in. From estate and trust services to wealth preservation strategies, we're committed to helping you grow your assets and avoid costly errors.

Let's start with your 401(k) options:

Option 1: Taking a Lump-sum Distribution

You have the option to cash out your 401(k) when you leave a job, but this isn't a wise choice unless you're in dire, immediate need of the funds. Distributions from a 401(k) are subject to state and federal income taxes. As a result, these distributions may put you in a higher marginal tax bracket. As if paying the taxes on the lump sum distribution isn't enough, you'll also have to pay a 10% early withdrawal penalty if you've taken these distributions before the age of 59 1/2. The taxes and early withdrawal penalty could result in losing half of your hard-earned savings. Lastly, any money that you have taken from the 401(k) loses the benefit of tax deferred growth.

Option 2: Rolling Your Existing 401(k) Into a New 401(k) plan

Most company 401(k) plans allow you to roll your 401(k) from a previous employer into your new employer's plan. There are no tax consequences or penalties to make this choice. This option also makes it very convenient to manage your savings just as you have in the past and there is potential for continued tax-deferred growth. It's crucial, though, to evaluate the new plan before you decide. The investment options within the new plan may not be as good as the previous options, may have higher fees or may have more restrictions. Trust one of our seasoned professionals to go over the fine print.

Option 3: Leave the 401(k) With Your Former Employer

If you have a balance exceeding $5,000, most employers will allow you to keep the money in the plan. However, most employers require you to withdraw or rollover the money in the plan if your balance is below $5,000.

You may also be required to keep the money in the plan if you've set up a schedule to withdraw equal periodic payments for at least five years or until you reach the age of 59 1/2… whichever is longer.

Other reasons for keeping the money in the old plan are potentially lower fees due to institutional pricing of the investments, familiarity with the investment options or separation of service rules. Tax deferral of the investments will continue; however, you'll no longer be able to contribute to the plan.

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Option 4: Rolling the 401(k) Into a Rollover Individual Retirement Account

This option gives you the most flexibility and in our opinion, makes the most financial sense.

By directly rolling your 401(k) into a new or existing Rollover IRA, you'll incur no tax penalties or consequences for doing so. Your investments will continue to grow tax deferred until you retire and start withdrawing funds for living expenses. The best part is you will have infinite investment options. You will no longer be constrained by the investment options available to you in your former 401(k). With the help of a trusted professional or on your own, you will now be able to choose your own investments from stocks, bonds, ETF's or mutual funds.

A real danger is processing the rollover incorrectly. When doing a rollover, it is very important to make sure it is done as a trustee to trustee transfer. Done this way, the money never passes through your hands and helps avoid unintended tax problems. Another difference between 401(k) plans and IRA's is the protection from creditors. A qualified plan like a 401(k) or 403(b) enjoys federal exemptions from creditors. An IRA is not a qualified plan and is subject to state codes rather than federal creditor code. If creditor protection is a concern to you, please check your state's bankruptcy code to make sure your assets would continue to be protected.

Our professional, experienced advisers have your very best interests at heart. Drop in soon to discuss estate services, asset management, investments or retirement planning. ■

Dear **Madame Francesca...**

Tell me some things about the new tax law that I don't know from the incessant repetitive chatter.

Signed, **Fit To Burst**

Dear **Fit To Burst,**

Note that law is called the **"Tax Cuts and Jobs Act of 2017,"** meaning that this law must have provisions that will reduce taxes for most taxpayers. We have heard ad nauseum about what has been expunged for now: all personal exemptions; the moving expense deduction; home equity interest; all but $10,000 of a combination of state and local tax (yes, sales tax too), real estate tax and personal property tax; a charitable donation to a school athletic fund that is tied to sporting tickets (even if you don't use them); the alimony deduction and the alimony inclusion for divorces after 2018; theft losses; and all 2% miscellaneous itemized deductions. All are suspended until 1/1/2026, i.e. gone for now, assuming no tax laws change before that date. Enhancements: the standard deduction and child tax credit increased and tax rates decreased in every tax bracket except the 10%, making most of those eliminated deductions moot anyway. Everyone's tax return will be impacted; most taxpayers will see a reduction in tax of some amount, varying widely.

The question remains, what don't you know? Some interesting tidbits: If 65 or older, you get an add-on to the standard deduction - $1,250 per person on a joint return or $1,550 if you are single - the same amounts apply if one is blind; for 2017 and 2018 only, medical expenses have to exceed 7.5% of AGI, not 10% as it was scheduled; charitable donations got a small enhancement – deductible cash donations can comprise up to 60% of AGI now instead of 50%; someone who is at least 70 ½ years old can still donate up to $100,000 from an IRA directly to charity. While the mortgage interest deduction is now limited to $750,000 of new total acquisition debt plus substantial home improvement debt, a mortgage in place before 12/15/2017 is still subject to the $1,000,000 cap. Big Note: any interest from your home equity line that you can trace to any substantial home improvement or to acquisition debt is deductible, but the debt is included in the $750,000 cap. Qualified dividend and capital gains tax rates remain unchanged.

Other favorable changes? The child tax credit doubles to $2,000 for kids younger than 17. The kiddie tax is now subject to trust tax rates, not the parents' tax rates. This is not an improvement, but it is a SIMPLIFICATION, of which there are not many. Tax rates in all brackets are lower for individuals as well as for trusts, albeit not by much for the latter. Possibly some other good news, but we must wait for guidance from Treasury (i.e., the IRS) - trustee fees for administration, tax prep fees and real estate taxes for irrevocable trusts may still be fully deductible; however, investment management fees are clearly no longer deductible.

Three huge changes, the first two also being simplifications:

1. AMT is all but gone. Not repealed, but nearly worthless, because state taxes are limited and miscellaneous itemized deductions are eliminated plus the exemption is increased.

2. The Pease amendment was repealed! A.K.A., the "itemized deduction reduction," the Pease amendment was a 3% haircut on itemized deductions on higher income taxpayers.

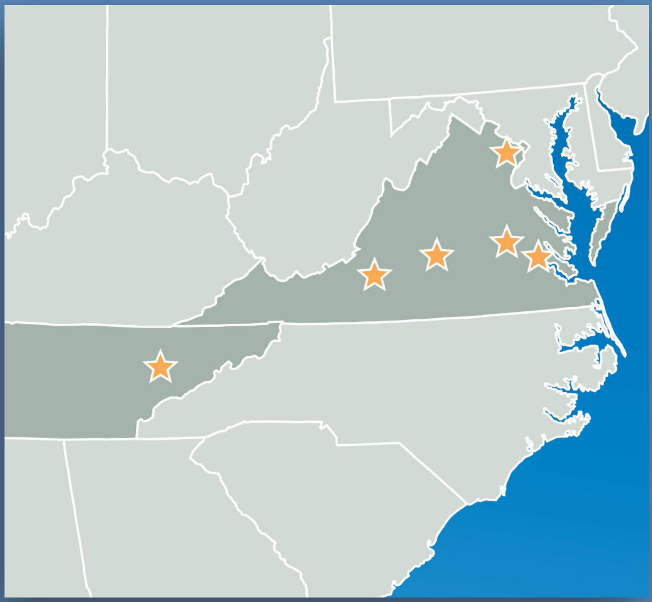
3. This one is anything but simple – sole proprietors (schedule C), owners of S-corporations, LLCs, and partnerships, plus those who participate in a REIT; may be able to deduct 20% of qualified business income. This deduction is well beyond the scope of this small article, except for two quick points – it does not apply to most personal service businesses like law, consulting, accounting, & financial services, unless taxable income is $315,000 or less on a joint return and $157,500 for all others (plus phaseouts above those thresholds). It is truly complex to the max.

Anyone up for a few planning pointers? As noted earlier, a contribution directly from one's IRA to a charity, if at least 70 ½ years old, is still a great opportunity to keep the required minimum IRA distribution out of income, particularly if one will not be itemizing. Along those same lines, consider funding a "DAF" (Donor Advised Fund) to bundle charitable donations for several years into one year, receive the charitable donation deduction currently, itemize in the year of the gift, then make recommendations to the DAF's administrator to give annually to your usual charities. Use low-basis stock to fund the DAF to maximize the tax savings. You can repeat this every two or three years to keep the DAF funded, maybe even making it perpetual as a foundation housed at TCV, and to maximize your tax deduction savings. Or, front load a donation to a charity that has NAP (Neighborhood Assistance Program) credits that give a Virginia tax credit for a portion of the donation, and a charitable deduction too, or take advantage of one of the other Virginia tax credit programs. If itemizing for 2018, use your real estate and personal property tax to make up as much of your $10,000 tax deduction limit as possible to give the most impact to the Virginia tax return deductions, since Virginia allows no deduction for state income tax.

And with that complicated answer to a simple question, The Madame wishes you Many Happy Returns.

Frances Goldman, JD, CPA, is President of The Tax Complex, a strategic partner of TCV. She is currently responsible for trust and estate tax compliance, post-mortem planning including estate administration, and tax and estate planning.

The Trust Company of Virginia expands into Tennessee with the opening of TCV Trust & Wealth Management in Knoxville.



Our Path to Growth

- In 1993, The Trust Company of Virginia was founded as Virginia's first independent trust company.
- In 2008, we formed TCV Financial, a holding company for The Trust Company of Virginia's five offices and our future affiliates.
- In 2018, we opened our sixth office in Knoxville and became a Tennessee State-chartered trust organization, operating as TCV Trust & Wealth Management.
- The Trust Company of Virginia is now a division of TCV Trust & Wealth Management.

We are excited about our expansion into Knoxville and welcome new opportunities to provide the highest quality asset management, trust administration, and estate services to individuals and families.

Introducing a new, convenient option for viewing your accounts.

We believe it is important for you to have access to your account information in real time, at your convenience, from your mobile device.

Great News! We now offer you the ability to view your wealth portfolio on devices such as your mobile phone, tablet, laptop and desktop.

With your personalized simple-to-use portal, you can easily view your accounts, monitor income and expenses, and track your worth.

Have questions or want to learn more? Your Account Manager or Associate is ready to answer your questions and assist you with setting up your personal portal.

Once you realize the benefits and features of this exciting new product, we hope you will consider using our secure portal to view your protected account information.

We are very excited to offer this comprehensive Wealth Access tool and hope you find it adds value to the services TCV provides.

The Trust Company of Virginia

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