VAN LIEW TRUST COMPANY

as we see it

Spring 2023

THOUGHTS FROM OUR CHAIRMAN

Economic and social challenges are ever-present in our everyday activities. Economists and investment professionals alike have varying views on the impact these have on the markets. However, in the long-term, consumers keep spending and companies aim to meet demand. This provides investment opportunities. It is our view that portfolios, periodically adjusted to the changes in supply and demand, will generate reasonable returns.

At Van Liew Trust Company, our customers hire us as an agent or a trustee. Some name us to serve later via a revocable trust or by way of a will that creates their trust. In this issue, our associate Ted Staples provides more insight into the role of the beneficiaries in these types of estate plans.

Alfred B. Van Liew

On Being a Beneficiary

Edward K. Staples

Most of us would readily assume that being named a beneficiary is vastly different than *actually becoming one:* True! But, when the reality of becoming a vested beneficiary to receive a form of inheritance arises, like many other parts of financial profiles, there are bound to be accompanying responsibilities along with recognition of the need to better understand how such an event is structured and the impact it will have on your personal planning.

What "type" of beneficiary are you? Generally, a beneficiary is defined as a person or organization that derives advantage from something. You might be the only person involved or part of a class of recipients. An inheritance to a beneficiary can be as straightforward as a check in the mail or represent a continued source of support for a stated term, a lifetime or for generations. Different types of beneficiary designations carry varied outcomes from an emotional perspective, the reconciliation of taxes, and the amount of granted flexibility that may help maximize positive effects. For example, where you receive a direct gift or bequest, any affiliated income tax liability has already been reconciled through the tax filing of the distributing entity. In that instance, the property you receive belongs to you tax free with no continuing administrative or investment oversight.

Who's in charge? If a distributing entity is closing permanently, however, and you are the designated remainder recipient of the "residue" property, the administrator overseeing a final distribution will gather personal beneficiary information and provide a record of the process through closure. The administrator will require your name, address, date of birth, social security number and citizenship status. In certain cases, pertinent information about extended family might also be requested. This information is critical to establish a clear record that any distribution is constructed accurately for the correct individual(s). This record also represents an account (usually in lieu of a formal court accounting) prior to legal closure with the IRS and state tax authorities. Any attendant tax liability that carries out to a remainder beneficiary will be provided under their name and social security number by means of a 1099 or combined 1099/K-1 statement. As a remainder beneficiary you may be requested to "sign off" on a form of Release – which may contain an Indemnification clause and Refunding Agreement - indicating that it is understood you are receiving what belongs to you and the managing fiduciary has completed their duties as required under the law.

What provisions underlie your role as a beneficiary? As noted above, you might simply receive property outright. Perhaps it is an IRA beneficiary designation that may allow for the deferral of income tax by establishing a qualified rollover. Ask the questions: *Is it taxable, assignable, does it involve a power of appointment, can it be disclaimed?* These are all important technical areas of inquiry regarding a beneficiary inheritance. The subject property may transition from the custody of the originating entity (e.g. – estate/trust) to become part of your own personal property or the operative document might dictate the property remains registered under a separate tax identification number.

Apart from dialogue with the managing fiduciaries, you may wish to consult your own accountant, attorney and financial planner. They will recognize how such changes to your financial well-being could offer planning opportunities for you and your family. Also, if property is received as an outright inheritance, begin to think about potential adjustment to your own financial plan beneficiary designations! When our financial lives gain in size and complexity, it is often a good time to retain a trustee as an investment advisor who will take on technical research, investment management, and provide you with administrative support services.

What type of property is it? Cash, real estate, insurance proceeds, intellectual property or digital assets? Is the property considered a collectible or comprised of appreciated securities? You should be apprised as to whether any property you receive has restrictions, involves a lump sum or other distribution option and if funds are to be dispersed to you on a mandatory or discretionary basis. Information about the characteristics of the property may also help to decide about establishing a recipient brokerage account, choosing to fund your own revocable trust or to secure tangible property storage.

When you actually become a beneficiary, you may be contending with grief from the loss of a loved one or gratefully surprised; you may be adapting or already well-versed. Regardless, apart from gaining personal monetary value, the smart beneficiary will recognize the logic of communicating with the authorized parties enacting a distribution. Your chosen advisors - fiduciary specialists - may be brought on board to assist with efficiently merging required tax data with your subsequent 1040 filings. Whether outright or remaining in trust a beneficiary's inheritance may warrant a review of personal tax estimates, updating one's own beneficiary designations, opting to pay down existing debt, additionally funding tax deferred retirement accounts, and the satisfaction of expanding philanthropic gifts. Active participation, pertinent questions, and the effort to generally understand the process duration and accompanying responsibilities will help immensely in the continued use and management of your new property in such a way as to have the greatest positive impact in your lifetime and for those who follow.