page 2
Five things to know to reduce your tax on capital gains

page 3
Using a prepaid funeral contract to spend down assets for Medicaid

page 4
IRS now allows private debt collectors to dun taxpayers

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# Estate planning for a single person

If you are single, you may not think you need to plan your estate. But single people have as much reason to plan as anyone else. Estate planning not only involves determining where your assets will go when you die, it also helps you plan for what will happen should you become incapacitated, perhaps as the result of a stroke, dementia, or injury. If you don't make a plan, you will have no say in what happens to you or your assets.

Without a properly executed will in place when you die, your estate will be distributed according to state law. If you are single, most states provide that your estate will go to your children, parents, or other living relatives. If you have absolutely no living relatives, then your estate will go to the state. This may not be what you want to have happen to your assets. You may have charities, close friends, or particular relatives that you want to provide for after your death.

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If you become incapacitated without any planning, a court will have to determine who will have the authority to handle your finances and make health care decisions for you. The court may not choose the person you would have chosen. In addition, going to court to set up a guardianship is time-consuming and expensive.

All this can be avoided with the simple step of executing a durable power of attorney, allowing a person you appoint — your "attorney-in-fact" or "agent" — to act in your place for financial purposes when and if you ever become incapacitated. The person you choose will be able to step in and take care of your financial affairs if need be.

In addition, you should have a health care proxy. Similar to a

continued on page 3

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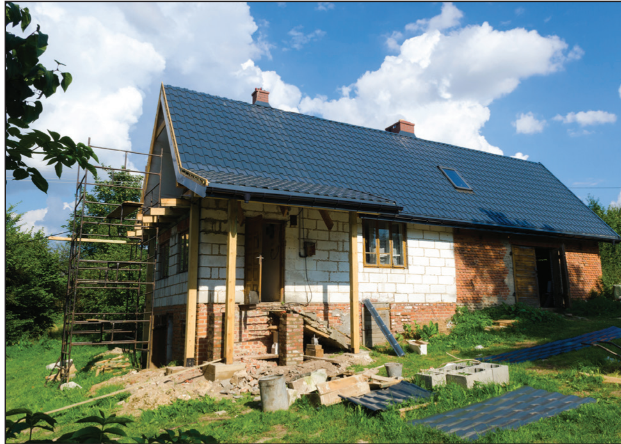
# Five things to know to reduce your tax on capital gains

Although it is often said that nothing is certain except death and taxes, the one tax you may be able to avoid or minimize the most through planning is the tax on capital gains. Here's what you need to know to do such planning:

**1. What is capital gain?** Capital gain is the difference between the "basis" in property (usually real estate or stocks, but also including artwork and collectibles) and its selling price. The basis is usually the purchase price of the property. So, if you purchased a house for $250,000 and sold it for $450,000 you would have $200,000 of gain ($450,000 - $250,000 = $200,000).



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However, the basis can be adjusted if you spent money on capital improvements. For instance, if after buying your house you spent $50,000 renovating the kitchen, the basis would now be $300,000 and the gain on its sale for $450,000 would be $150,000 ($450,000 - ($250,000 + $50,000) = $150,000). Just make sure you keep good records of any capital improvements in order to prove them in the event of an audit.

**2. How much is the tax?** It depends, but assume 15 percent for federal tax unless your income is either very low or very high, plus whatever your state's tax is. If we assume 5 percent state tax, then the tax on $200,000 of gain would be about $40,000.

There are three exceptions. First, if you owned the property for less than a year, you are subject to short-term capital gains tax rates, which are essentially the same rates as for income tax. Second, if your taxable income, including the capital gain, is less than $37,950 for a single person and $75,900 for a married couple (in 2017), there's no federal tax on capital gain. But be aware that the capital gain will be included in the calculation and could put you over the threshold. Third, if your income is more than $418,400 for a single person and $470,700 for a married couple (in 2017), the federal capital gains tax rate is 20 percent, bringing the combined federal and assumed state rate up to just over 25 percent.

**3. What is the personal residence exclusion?** You may exclude up to $250,000 of gain on the sale of your personal residence if you're single, and $500,000 if you're married. To qualify, you (or your spouse) must have lived in and owned the house for at least two out of the five years prior to the sale. Those two years don't have to be the same. For instance, if you lived in the house from 2013 to 2015 and owned it from 2015 to 2017, but rented it out, you could still qualify for the exclusion. If you are a nursing home resident, the two-year requirement is reduced to one year.

**4. What is carry-over basis?** If you give property such as a family heirloom or real estate to someone else, they receive it with your basis. So, if your parents bought a vacation home many years ago for $25,000 and now its fair market value is $500,000 and they give it to you, your basis will also be $25,000. If you sell it, you'll have a gain of $475,000 and no personal residence exclusion, unless you move in for two years first. The combined state and federal tax would be $118,750.

**5. What is the step-up in basis?** On the other hand, the basis in inherited property gets adjusted to the value on the date of death. In the example of the vacation home, if your parents passed it on to you at their deaths rather than giving it to you during their lives, the basis would be adjusted to $500,000, potentially saving you $118,750 on its sale. But depending on the size of your parents' estate it may be subject to estate tax, which would be payable within nine months of their death, while the tax on capital gain would not be due until you sold the property, perhaps decades in the future.

**6. What are offsetting losses?** If during the tax year you realized capital gain through the sale of property, you can offset it with capital losses. Say, for example, you sell your home and realize a lot of gain. You could also sell some stock that has gone down in value, creating a loss that offsets some of the gain on the house sale. In some instances, you can carry over loss from one tax year to the next to offset future gains.

By understanding and considering these rules, you can save on capital gains taxes and avoid a number of possibly expensive mistakes. Talk to your attorney about ways to lower or eliminate your capital gains tax.

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## *Estate planning for a single person*

*continued from page 1*

power of attorney, a health care proxy allows an individual to appoint someone else to act as his or her agent for medical, as opposed to financial, decisions. Unlike married individuals, unmarried partners or friends usually can't make decisions for each other without signed authorization.

You should also consider an advance directive giving instructions on what type of medical interventions you would like if you aren't able to express your own wishes when decisions need to be made.

Single individuals who are divorced need to make especially certain that the beneficiary designations on their IRAs, life insurance policies, and relevant bank accounts are up-to-date. If you don't, your ex-spouse could get the funds. Also, for single people of means, opportunities to avoid state or federal estate taxes can be more limited than for married couples, although advance planning can close the gap.

In short, proper planning is a good idea for everyone. Contact your attorney to help you create an estate plan.

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## Using a prepaid funeral contract to spend down assets for Medicaid

No one wants to think about his or her death, but a little preparation in the form of a prepaid funeral contract can be useful. In addition to helping your family after your passing, a prepaid funeral contract can be a good way to spend down assets in order to qualify for Medicaid.

A prepaid or pre-need contract allows you to purchase funeral goods and services before you die. The contract can be entered into with a funeral home or cemetery. Prepaid funeral contracts can include payments for embalming and restoration; a room for the funeral service; a casket, vault or grave liner; cremation; transportation; permits; a headstone; a death certificate; and an obituary, among other things.

One benefit of a prepaid funeral contract is that you are paying now for a service that may increase in price — possibly saving your family money. You are also saving your family from having to make arrangements after you die, which can be difficult and time-consuming.

One benefit of a prepaid funeral contract is that you are paying now for a service that may increase in price — possibly saving your family money.

Another benefit is that it can be a way to spend down your assets. Medicaid applicants must spend down their available assets until they reach the qualifying level (usually around $2,000, depending on the state). By purchasing a prepaid funeral contract, you can turn available assets into an exempt asset that won't affect your eligibility.

In order for a prepaid funeral contract to be exempt from Medicaid's asset rules, the contract must be irrevocable. That means you can't change it or cancel it once it is signed.

Before purchasing a contract, you should shop around and compare prices to make sure it is the right one for you. Buyers need to be careful that they are buying from a reputable company and need to ask for a price list to make sure they are not overpaying.

For information from the Federal Trade Commission on shopping for funeral services, see: https://www.consumer.ftc.gov/articles/pdf-0056-funerals.pdf

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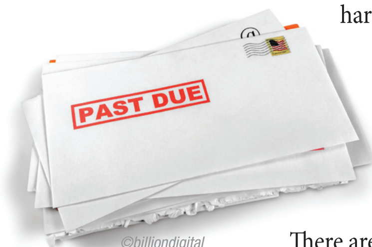
# IRS now allows private debt collectors to dun taxpayers

In a move that could be confusing to seniors who are vulnerable to scams, the IRS is using private debt collection agencies to collect past-due taxes. The new program began in April 2017.

Pursuant to a law Congress passed in December 2015, the IRS may now contract with private debt collectors to collect certain debts. The private collection agencies can work on accounts where the taxpayer owes money but the IRS is no longer actively working on the account, perhaps because it is older or because the IRS does not have the resources to continue pursuing it.

Historically, scammers have posed as the IRS to target seniors and other vulnerable adults to retrieve identifying information or payment. Up until now, tax professionals have been able to reassure clients that the IRS would never harass consumers over the phone. However, under this new rule private debt collectors may contact taxpayers by phone, which may make it more difficult to determine whether a scammer is targeting the taxpayer.



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There are some ways to tell if the call is legitimate. The IRS will notify taxpayers by mail if it is turning a case over to a private debt collector. In addition, the debt collector is required to send a written notice once it receives the taxpayer's information. Agencies are also required to abide by debt collection laws, which prevent debt collectors from harassing consumers.

The IRS has contracted with four debt collection companies:

- Conserve, located in Fairport, New York
- Pioneer, located in Horseheads, New York
- Performant, located in Livermore, California
- CBE Group, located in Cedar Falls, Iowa

To avoid scams, remember that private collection agencies will only ask for payments to be made online at IRS.gov or by check. Checks should be made payable to the U.S. Treasury and sent directly to the IRS, not to the private collection agency. The collection agency will not ask for payment on a prepaid debit, iTunes or gift card.

Rep. John Lewis, D-Ga., has introduced the Taxpayer Protection Act of 2017, which would repeal the IRS's authority to contract with private companies to collect federal tax debts.