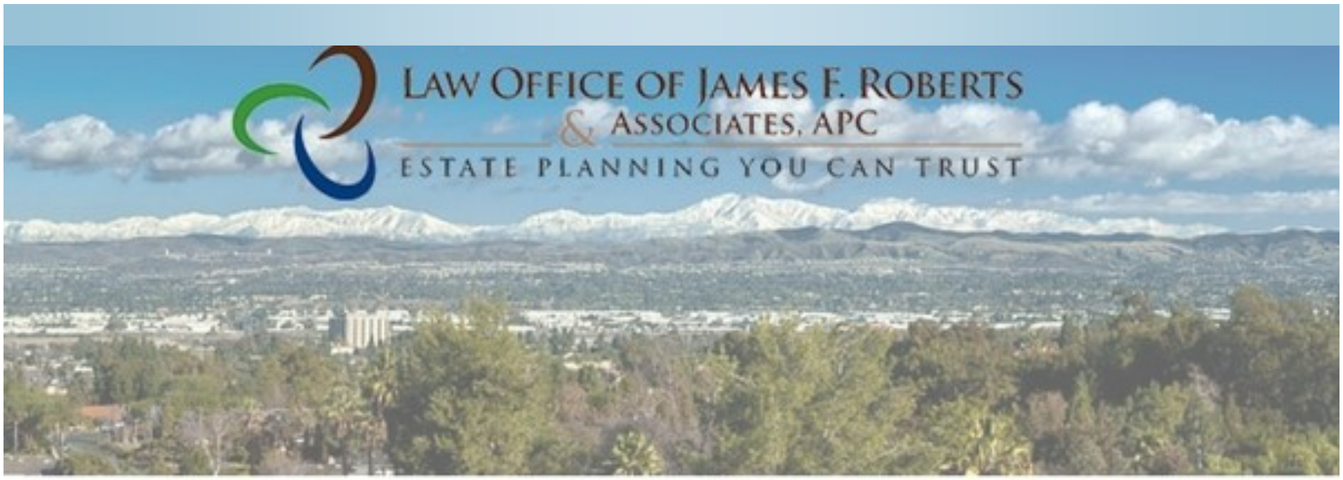

Is Your AB Trust Necessary?

November 2017

Because of the currently high estate tax limits, an AB trust is no longer as commonly used as it was in earlier years. Currently, the estate tax exemption is $5.49 million – which means you can leave this amount estate tax free to your loved ones during your lifetime or upon your death. For a married couple, each spouse can leave this amount tax free, amounting to almost $11 million that a married couple can leave to their children – estate tax free. Years ago, particularly in the 1990's and early 2000's, the estate tax limit was much lower, and as low as $600,000 – because that was the case, more people had taxable estates upon their death. In order to reduce or eliminate the estate tax, married couples would have to establish an AB trust which allowed the surviving spouse to preserve the deceased spouse's estate tax exemption. However, the AB trust is quite sophisticated and includes complexities that just aren't worth the hassle unless you're saving thousands of dollars.

Today, because the estate tax limit is much greater than $600,000, fewer and fewer people need a complicated AB trust – but many people still have this type of trust because their estate plan hasn't been updated in decades. If you have an AB trust and your estate is valued at under $5,490,000, it may be advisable to have your estate plan reviewed and possibly have your trust amended to be a much simpler type of trust – one that doesn't require the complexities of an AB trust.

If you have questions about AB trusts or your particular trust, contact the Law Office of James F. Roberts and Associates at (714) 282-7488.

In this issue

DIY THANKSGIVING FLOWERS

Here are the steps for creating this arrangement:

1. Order flowers and pick a ship date to receive the flowers 2-3 days before Thanksgiving.

2. Upon arrival, cut the stems & hydrate the flowers in buckets until you want to arrange.

3. Cut down the [floral foam] to fit into the vase, let it to soak in a water/ flower food mix.

4. Put the soaked floral foam in the vase and create the arrangement shape with greens.

5. Add larges focal flowers first, in this case use the roses to create the focal center.

6. Add the smaller filler flowers, spread all the colors throughout the arrangement.

7. Finish up my rotating the arrangement and filling in spaces!

Sweet Potato Crostini -
A Perfect Thanksgiving Appetizer

Ingredients:

- - two large sweet potatoes, peeled and ends discarded
- - 3 tablespoons olive oil
- - 2/3 cup chopped pecans
- - 3 tablespoons salted butter
- - 3 tablespoons dark brown sugar
- - 1/4 teaspoon Pumpkin Spice seasoning
- - 4oz package goat cheese
- - sea salt
- - chopped chives to garnish

Disposition of Rental Property Assets

In any property sale, the **IRS** is interested in gain or loss calculated from the adjusted basis and other factors related to the sale. The adjusted basis of the property is the original purchase cost plus improvements and less depreciation taken. A gain occurs when the selling amount is more than the adjusted basis, and a loss is when the adjusted basis (original cost) exceeds the sale price.

How do you calculate the gain after the sale?

Let's say you purchased a house in 2002 at a cost of $200,000. Your intention was for this property to be a rental and you placed it in service immediately. Over the years, you made improvements to the property at a total cost of $25,000. These include kitchen and bathroom renovations and a roof. During the life of this rental you took deprecation of $3,600 per year. In 2017, you decide to sell it. The sale price was $500,000 with a cost of sale of $45,000. What is your gain?

Item	Amount
Sale Price	$500,000
Less Cost of Sale	$45,000
Adjusted Sale Price (Sale Price – Cost of Sale)	$455,000
Original Purchase Price	$200,000
Improvements	$25,000
Depreciation Taken ($3,600/year @ 15 years)	$54,000
Adjusted Basis (Original Purchase Price + Improvements – Depreciation)	$171,000
Gain/Loss (Adjusted Sale Price – Adjusted Basis)	$284,000

In this case, you would realize a gain of $284,000. This gain would be taxed at the long-term capital gains rate, which depending on your tax bracket would be 15% or 20%. The depreciation portion, of $54,000, will be subject to a special rate up to 25%.

Using the same example, let's change the sale price to $205,000 and Cost of Sale to $35,000.

Item	Amount
Sale Price	$205,000
Less Cost of Sale	$35,000
Adjusted Sale Price (Sale Price – Cost of Sale)	$170,000
Original Purchase Price	$200,000
Improvements	$25,000
Depreciation Taken ($3,600/year @ 15 years)	$54,000
Adjusted Basis (Original Purchase Price + Improvements – Depreciation)	$171,000
Gain/Loss (Adjusted Sale Price – Adjusted Basis)	-$1,000

Continued on Page 4

Disposition of Rental Property Assets (Cont. from Page 3)

In this scenario, you would incur a loss of $1,000. Unlike personal property, losses taken on the sale of business and investment property are allowed on your individual tax return. Depending on the attributes of the property the loss is considered an ordinary loss or a capital loss. Ordinary losses are able to offset ordinary income on your tax return. Capital losses are limited to $3,000 of ordinary income reduction.

For more information on calculating gain or loss on the sale of any asset, contact our trust tax advisors who work under our same roof, the professionals at Grandfield Tax and Business Services, Inc, at 714-921-2790.

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