

# TRUST ARTICLES



## Ask a Trust Officer – Having “the talk”

### DEAR TRUST OFFICER:

When should I talk to my children about their inheritances?

– THOUGHTFUL PARENT

### DEAR THOUGHTFUL:

As a general rule, sooner is better than later. An inheritance should not come as a surprise; it is something that requires preparation and planning. In that way, an inheritance may prove to be more than a temporary windfall, because it may provide lasting financial security for your heirs.

If your estate plan includes trusts for your children, or if it will not be divided equally, it is especially important that they understand the reasons and benefits of your wealth management decisions. This may be done at a “family meeting” attended by the whole family and your estate planning advisors. Some parents have difficulty discussing financial matters with their children, so having a professional on hand to moderate the meeting and answer questions can be quite valuable.

Estate planner Gerald M. Condon once observed, “You really don’t know your children—until they divide their inheritance.” Airing the motivations behind an estate plan will typically promote family harmony, reducing the chance of conflict when the plan goes into effect. Still, your heirs need to understand that estate planning is not a family project, and your plan is not being put to a family vote.

We’re happy to be of assistance in family meetings. Please call on us to learn more.

Do you have a question concerning wealth management or trusts? Send your inquiry to [trust@countryclubtrust.com](mailto:trust@countryclubtrust.com)

## Whistleblower Report

The IRS Whistleblower Office rewards people who “blow the whistle” on persons who fail to pay the tax that they owe. The bounty can be up to 30 percent of the additional tax, penalty and other amounts collected by the IRS.

In fiscal 2019, the office collected \$616.8 million in additional proceeds based upon 181 tips. The tipsters were paid more than \$120 million for their services, for a net gain of just under \$500 million. Roughly half of the claims for whistleblowing in 2019 were rejected as lacking specificity or credibility, or for being too speculative.

The 2019 collection was way down from the \$1.6 billion haul in 2018, but that year was an anomaly, according to Dean Zerbe, senior policy adviser to the National Whistleblower Center. There were a couple of “big fish” that skewed the number higher. The better point of comparison is 2017, when \$34 million was paid to whistleblowers from an additional \$190.5 million in collections based on their tips.

How does one improve the chances of a tip being taken seriously? Zerbe said: "You need good, credible information, preferably from an insider. The IRS folks are busy; they don't have time to go through a shoebox of papers. . . . You have to make it simple for them."

\$500 million sounds like a big number, until one puts it into context. Last fiscal year the IRS collected \$3.6 trillion in gross taxes, so the whistleblower program added 0.014% to the collections. Collections through enforcement actions (audits and lawsuits) came to \$57.5 billion, which was just 1.6% of the total. The whistleblower program was 0.8% of that. When more than 98% of tax collection happens without government prodding, we may be said to have a voluntary tax system.

Reminder: Tax returns this year are due on Wednesday, April 15—there are no local holidays extending the time, as happens some years. The IRS expects to process more than 150 million individual tax returns. The filing season begins on January 27.

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## The Remarkable Decade

As 2019 came to a close, several writers took note of the progress that has been made in recent years. Good news often goes unreported, because it doesn't attract as many clicks or eyeballs in the digital age. But there has been quite a bit of good news.

For example, Nicholas Kristoff wrote in *The New York Times* that "This Has Been the Best Year Ever." Among the glad tidings:

- In 1950, 27% of children died by age 15. Now only 4% do.
- The percentage of people living in "extreme poverty" (defined as subsisting on \$2 per day or less) has fallen from 42% in 1981 to 10% today.
- Fifty years ago a majority of people worldwide were illiterate. Now we are approaching 90% adult literacy.
- In recent years, every day another 325,000 people acquired electricity for the first time, and 200,000 got piped water. Every day some 650,000 were able to go online for the first time, according to the World Bank.

There are plenty of problems left to solve in the world, but progress of this sort ought to be recognized for the hope it may inspire.

### Doing more with less

In a similar vein, Matt Ridley covered progress in Britain in "We've just had the best decade in human history. Seriously" published in *The Spectator*. Asia and Africa have experienced faster economic growth than Europe or North America, with the consequence that global inequality is falling. Famine is nearly extinct. Malaria, polio, and heart disease are in decline.

Ridley goes on to assert that we are consuming less, even during periods of prosperity. As one simple example, he notes that in 1959 each drink can contained 85 grams of aluminum. Today, just 15 grams are needed, and most are obtained from recycled material.

Consumption appears to have peaked in Britain about 2000. "The quantity of all resources consumed per person in Britain (domestic extraction of biomass, metals, minerals, and fossil fuels, plus imports minus exports) fell by a third between 2000 and 2017, from 12.5 tonnes to 8.5 tonnes," Ridley reports. Even though the population has grown since then, that growth has been outpaced by this decline in resource use. The net result is that fewer resources are being consumed in absolute terms.

Increases in agricultural productivity mean that much less land is required to feed even a growing population. In a 2012 study, Jesse Ausubel of Rockefeller University concluded that 65% less land was being used for a given amount of food production compared to 50 years earlier. Less land dedicated to agriculture means that forests are expanding, especially in the richer countries. The return of habitat is accompanied by a rebound in animal and bird populations.

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Perhaps the most surprising statistic is that total energy consumption in Britain has fallen by 10% since 1970, even though the population is up 20% and the economy has tripled. Improved energy efficiency gets part of the credit. However, another factor is that some energy-intensive industries, such as the steel, aluminum, and chemical companies have relocated offshore. Imports of these commodities include embedded energy usage that doesn't show up in the tallies.

### **Can we keep it going?**

The Dow Jones Industrial Average opened the last decade at 10,430.49. It closed at 28,538.44. It was a great decade to invest in stocks, unlike the first decade of this century when the DJIA finished lower.

There are at least two schools of thought. One is that the current bull market has the longest duration of any in U.S. history, and it is overdue for a correction. When we are at record highs, the upside potential is smaller than the downside risk.

The other theory is that the fundamentals of the American economy remain very strong, especially the employment numbers. Although recessions may be inevitable, there isn't one on the horizon as of yet.

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## **The SECURE Act Upends Estate Plans**

The Setting Every Community Up for Retirement Enhancement (SECURE) Act [H.R. 1994] passed the House last year on a bipartisan basis, by a vote of 417 to 3, but then stalled in the Senate. A few Republican Senators objected to unanimous consent for the bill. In December, Congress enacted tax-and-spend legislation that included the SECURE Act, taking effect the first of this year.

The Act includes a number of liberalizations that should promote retirement savings. For example, the prohibition on contributing to a traditional IRA upon reaching age 70½ has been eliminated. Required minimum distributions from IRAs and qualified retirement plans may now be delayed to age 72, rather than age 70½.

To pay for the changes that result in delayed tax collections, the Congress changed the rules rather drastically for inherited IRAs. Under the old rules, one who inherited a traditional or a Roth IRA was allowed to take minimum distributions from the account over his or her lifetime. For example, a 50-year-old could spread the payments out over 34.2 years. If a great-grandchild inherited the account, the payout period could be as long as 80 years! This planning strategy was known as the "stretch IRA," and it was understandably popular. To assure that the IRA was not invaded prematurely, some people paired the stretch IRA with a trust plan.

The SECURE Act largely eliminates the stretch IRA. The general rule now is that the IRA assets must be distributed over the ten years following the account owner's death.

Exceptions are made for these designated beneficiaries:

- a surviving spouse;
- a minor child or children;
- a disabled beneficiary;
- a chronically ill individual; and
- beneficiaries who are less than ten years younger than the account owner (such as a brother or sister).

The exception for the minor child lasts only until he or she reaches the age of majority, because then the ten-year rule kicks in. For the other categories of designated beneficiaries, the delay in distributions ends at death when a ten-year distribution must begin.

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Eliminating the stretch IRA accelerates the taxes on the retirement savings, shortens the deferral period, and it also makes it more likely that the distributions will occur during the beneficiary's high earning years instead of being delayed until retirement. If a large IRA will be a significant element of your estate, you should consider meeting with your estate planning advisors early this year.

**Sample questions and answers:**

*I turned 70½ in 2019, so am I excused from taking a required minimum distribution now? Or next year?*

Sorry, the change does not affect you. Only those who turn 70½ in 2020 or later get the benefit of waiting to age 72 for required minimum distributions. You will have to take a minimum distribution for the 2019 tax year (if you haven't already) as well as the 2020 tax year.

*I inherited an IRA three years ago from a parent and have been taking minimum distributions over my lifetime. Does that have to change now, do I take the rest over ten years?*

Good news, the new law does not affect you. IRAs inherited from those who died after December 31, 2019, are the ones affected by the new law.

*My children are adults, but my grandchildren are not. Can they get the benefit of waiting until they reach their majority for the ten-year rule to apply?*

Sorry, no. The exception only is for minor children of the account owner, not grandchildren, nieces, or nephews. These more remote relatives will need to withdraw everything from the account over ten years.

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