THOME FINANCIAL MANAGEMENT
Creative ▪ Objective ▪ Confidential

Office 10210 N.E. 8th Street, Suite 200
Bellevue, WA 98004
Phone 206.219.0521
Telefax 206.219.0541
Email info@thomefinancial.com
Website www.thomefinancial.com

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Appraising Your Appraiser

An appraiser assigns value to your property and potentially minimizes your exposure to certain risks, such as tax penalties. An inaccurate appraisal could hinder your ability to receive a fair price for property, increase the likelihood of a tax audit, or result in an inequitable division of property or inappropriate insurance coverage. Your financial decisions may depend on your appraiser's research, analysis, and reporting.

Hiring an Appraiser

Choosing a qualified professional involves time and preparation. Because appraisers tend to specialize in certain areas, such as antiques, coins, stamps, jewelry, silver, and so forth, you want to find someone with relevant expertise and a proven track record. For a referral, contact the following professional organizations:

International Society of Appraisers (ISA)
www.isa-appraisers.org
1-312-981-6778

Appraisers Association of America (AAA)
www.appraisersassoc.org
212-889-5404

American Society of Appraisers (ASA)
www.appraisers.org
1-800-272-8258

Other resources include libraries, museums, auction houses, and the Internet, as well as recommendations from friends and colleagues. Once you find someone with the necessary experience, conduct an interview to ensure his or her appraisal practices meet your standards, as well as the accepted standards in the field.

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Keep Land in the Family with Conservation Easements

A conservation easement is a voluntary legal agreement between a landowner and another party, usually a government agency or nonprofit trust, which restricts the use of the land in perpetuity, even as the land remains the private property of the landowner and can be sold or passed on to heirs. In addition to enabling farmers, ranchers, and other large landowners to specify how they wish the land to be used, conservation easements can be helpful as a means of reducing income taxes and lowering the value of estates for tax planning purposes. In many cases, the creation of a conservation easement can avert the need of the owner or the owner's heirs to sell or subdivide the land to cover tax liabilities after death.

Generally, a conservation easement agreement is made between a landowner and a Federal, state, or local government agency, or a qualified land protection organization, such as a land trust. While these agreements vary, they generally restrict real estate development, commercial and industrial uses, and certain other activities on the property, while preserving the land for conservation purposes specified in the agreement. The agreement may, for example, stipulate that the land is to be used for farming or forestry, as a natural habitat for wildlife, or as a scenic or recreation area accessible to the public. In some cases, the conservation easement preserves a piece of land or a building that has been certified as historic, including the historic façade of a building.

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Appraising Your Appraiser

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Consider asking the following questions:

1) **What are your work experience and education qualifications?** Ask for references and review the candidate's résumé or curriculum vitae, making note of work history, both formal and continued education, and membership in professional organizations. Some professional organizations require that members pass examinations and comply with a code of ethics. Valuation should be based on standard appraisal principles and procedures acquired through formal training. Authenticating an item is just one aspect of the appraisal process.

2) **What is your area of expertise?** Make sure your candidate's expertise matches your needs. However, finding one person who is an expert in *all* areas may be difficult. The International Society of Appraisers recognizes over 220 areas of specialization. For items that exceed an appraiser's expertise, ask if the appraiser would be willing to consult with other qualified professionals.

3) **How much will the appraisal cost?** Appraisers may charge per hour, per diem, per item, or a flat rate. Other charges may include reimbursement for additional expenses, including travel and photographs. Consider avoiding any proposal that includes a "contingency fee" based on a sale or a fee that is based on a percentage of the valuation. Generally considered unethical, these types of appraisals could have tax consequences for you; the Internal Revenue Service (IRS) rejects all appraisals performed under these conditions.

4) **How do you report your findings?** An appraiser typically prepares a signed, written report that documents the valuation of an item, including his or her evaluation methodologies and credentials.

The Written Report

Keep in mind that at some point attorneys, judges, the IRS, estate executors, insurers, and trustees may grant decisions based on your appraisal. Therefore, it should be comprehensive and professionally prepared. The following key elements are usually included in an appraisal report:

Statement of purpose. As discussed earlier, an appraisal has a variety of uses, which may include helping you assess your insurance needs or substantiate a tax deduction. The purpose of your appraisal and its expected use should be clearly noted.

Description of property. This includes a physical description that details such features as the size, weight, color, age, material composition, origin, and condition of the appraised item, as well as the method of acquisition (often helpful for tax purposes). The appraiser also attests to an item's authenticity and notes the date it was viewed.

Statement of disinterest. The appraiser should verify that no conflict of interest exists. If the report has been prepared for tax purposes, the appraiser must provide a tax identification number and also disclose if the IRS has ever disqualified him or her. The appraiser also needs to include an explanation of the applicable fee structure.

Method of valuation. An explanation of valuation methodology offers a basis for the appraiser's conclusion. In general, appraisers make assessments based on such factors as replacement value, fair market value (FMV), or comparable sales. For example, an appraiser who is determining the value of a work of art may consider the prices of similar works of art. The appraiser often includes a market analysis that references historical performance and may also project future value.

Provenance. In some instances, particularly with artwork, a history of ownership may be included. Further documentation, if applicable, might chronicle noteworthy exhibitions or publications.

Statement of value. The report should clearly state a dollar amount representing the valuation of the appraised item, and it should be signed and dated by the appraiser. It is also standard practice for the appraiser to include his or her credentials, either with a résumé or curriculum vitae.

Stay Current

In order to keep pace with the potential for changing market values, consider reviewing an appraisal every three years. As your financial strategies change, make sure you base your decisions on the most up-to-date and accurate information regarding the value of your possessions. What you cherish as "priceless" may have a price tag that can help you plan for your financial future. $

Maintaining a Healthy Credit Report

Your credit report is an accumulation of information about your bills and loans, your repayment history, your available credit, and your outstanding debts. These reports are typically used by lenders when deciding whether or not to accept a loan or credit application. A healthy credit report can help you secure the funding you need to purchase a new home or car, pay for a child's education, or start your own business. The following guidelines can help you maintain a healthy credit report:

Establish and maintain a good credit history. Your ability to pay off debt over time can help paint a more complete picture for a lender inquiring about your financial habits. Therefore, you may want to consider maintaining your oldest credit card. Credit companies often suggest that you also maintain a few accounts to demonstrate your commitment to managing multiple debt sources.

Close extra accounts. After receiving your new customer gifts offered by credit card companies, you may forget about these accounts. However, having numerous open accounts on a credit report may be a red flag to a lender, indicating that you could find yourself in financial danger due to the large amount of readily available credit. Consider closing any accounts that you do not use. This may also minimize your risk of identity theft. Remember, cutting up the credit card itself or simply not using it does not mean the account is closed. To officially close an account, you must call or write to the company with your request.

Make the minimum payments. Delinquencies on payments remain on your credit report for seven years, even if you have since settled the account balance and paid the debt. Therefore, always try to make at least the minimum payments by the due date requested by the creditor or lender.

If you are in a tight financial situation and decide to ignore an account for a period of time, be aware that accounts sent to collection agencies or charged off by creditors (meaning the debt is written off as a loss) also remain on your credit report for seven years. So, if you are unable to make the minimum payments, you may want to contact your creditor, rather than ignore the problem.

Pay down and keep your debt in line with income. Determine your debt-to-income ratio by adding up the balances of all your loans and credit cards, and comparing that with the amount of income you receive annually. If your total debt exceeds your income, lenders may be hesitant to grant you more credit. If you have a large amount of debt, develop a strategy to pay it off gradually within your budget. In the meantime, curb excess spending and avoid further debt.

Control your number of credit inquiries. A large number of inquiries on your report may signal to a lender that you are in need of a lot of credit or are preparing to take on a large debt. Neither situation bodes well for your ability to take on additional debt. Keep in mind that each time you apply for a new credit card, even if it is only to receive a free gift, an inquiry will appear on your credit report and remain on your report for two years.

Opt-out of inclusion on marketing lists. While soft inquiries, those made by marketers and others wishing to sell you something, do not usually appear on the version of your credit report shown to lenders, these inquiries indicate that your personal information may be available and used by the companies listed, increasing your exposure to identity theft. Many marketers receive lists of potential customers directly from credit bureaus. You can "opt out" of being included on lists sold to these companies by either writing to each of the three credit bureaus or calling 1-888-5-OPT-OUT. Doing so will remove your name from marketing lists for two years.

According to the **Fair Credit Reporting Act (FCRA)**, you can request a free copy of your credit report from each of the three major credit bureaus (Equifax, Experian, and TransUnion) once a year. For your convenience, you can access all three agencies through a single website at www.annualcreditreport.com. To maintain healthy credit, monitor your credit report regularly and take actions toward building and maintaining good credit. $

You've Graduated: Now It's Payback Time

It takes four years, on average, to graduate from most colleges and universities. During that time, students can accumulate a large amount of debt. For most, the degree is worth the burden of paying off student loans long after graduation. However, these questions remain: How should the debt be repaid? Are there any plans that can help make payback easier? What if a student can't find a job right away?

Several options make it easier to pay off Federal student loans. For example, some plans offer flexible payment schedules. Students applying for a Federal student loan can choose a **graduated repayment plan** that will allow them to start with lower payments after graduation that increase every two years. This schedule is good for those graduates who are likely to make more money in the workplace as they acquire experience.

Students also have the choice of several types of **income-driven repayment plans**, which are designed to lower monthly payments. The payments under such plans vary, but generally they are based on a percentage of the graduate's discretionary income.

A third choice is an **extended repayment plan** that offers either fixed or graduated monthly payments and allows graduates to extend their loan payment schedules from the standard of 10 years to 25 years.

To save money over the long run, a graduate may opt for the **standard repayment plan**. It requires a loan to be paid in up to 10 years, but payments are of a fixed amount and interest on the loan is likely to be less under this plan than under some of the other plans.

Deferment or forbearance may also be a temporary option for graduates in a financial bind due to unemployment or other extreme hardship. In select situations, borrowers may qualify for other repayment alternatives through their loan servicers.

Although students are required to repay loans even if they don't finish their education or are unable to find a job, in certain select circumstances loans are forgiven, canceled, or discharged: Examples include the following: your school closes while you are enrolled; you suffer a permanent disability; or you are a teacher who has taught in a low-income elementary or secondary school for five consecutive years (in this case up to \$17,500 of your loans may be forgiven).

For students with multiple loan balances, **consolidating** different student loans is an option that offers flexibility. The Student Loan Reform Act of 1993 allows different Federal education loans to be consolidated into a direct consolidation loan from the government: the loans are brought together into one loan, with a single monthly payment. This plan offers a variety of repayment terms, and the interest rate of the loan is fixed for the life of the loan. \$

For more information, contact the Federal Student Aid Information Center at 800-433-3243, or visit online at www.studentaid.ed.gov.

Launching a Pastime into a Business

Many people apply their creative talents or skills to a hobby or interest. Quite often, what begins as a simple pastime can blossom into a larger endeavor. The seeds of many large corporations were once planted by people in garages, attics, and basements after hours while they worked a regular day job. The stories of how these successful entrepreneurs turned a hobby into a business capture our attention, win our admiration, and spark our curiosity.

While some ventures mushroom into full-scale productive businesses, others have failed, leaving a trail of unemployment and debt. So, here are some factors to consider for launching *your* personal pastime or hobby into a bona fide business enterprise:

Fun may turn into routine. If you start a restaurant because cooking is fun, you may discover there is an enormous gulf between entertaining friends and pleasing sometimes difficult customers. One way to determine whether you can make a success of turning your hobby into a business is to take a job in a similar business. Then, if you like the routine and demands, and your feelings remain positive, proceed with your plan.

Dreams must be marketable. A hobby transformed into a business can be personally and financially rewarding. However, consumer need and positive public response are what turn creative ideas into real businesses. The more demand for your products or services, the more likely your enterprise will flourish. But, your venture must be *marketable* and your business personality *salable*.

Research the marketplace. Perhaps you have the classic entrepreneurial dilemma and wonder, "If I have this great idea, why hasn't someone else thought of it?" It is important to determine whether others have tried your idea or not, and succeeded or failed. You can do this rather quickly through Internet research on company websites, and obtaining annual reports from companies in the same field. At the risk of exposing your idea to potential competitors, you may want to consider contacting businesses via social networking sites, such as LinkedIn and Facebook for a more casual approach to find out more information on similar products and services.

Don't Quit Your Day Job. Until you have proven to yourself that there is a solid market for your idea, and know you can follow through on making your dream a reality, keep your current job and stable source of income. Many successful hobbyists-turned-entrepreneurs operate businesses during their free time until they are forced to leave their day job due to the increasing success and demands of their expanding new business.

Count the cost. The cost of capital and your time requires both financial and emotional resources. Intellectually, the dollars you *need* and the dollars you *have* may seem manageable. Emotionally, the hours you need to devote, and the time you need to put in, may also feel quite manageable. However, in the final analysis, the fruits of your labor and the rewards you anticipate must drive you past the incalculable stressors, potential hardships, physical challenges, and seemingly insurmountable odds you may face. Now, look at the potential revenue and answer the question, "Am I willing to work for that amount?"

Trust your instincts. Like other entrepreneurs, people who turn hobbies into businesses often have unusual intuition and insight, along with good timing. Their perseverance and willpower overcame obstacles, setbacks and, sometimes, even rejection, to manifest their vision into reality.

Develop a written plan. A **business plan** will help you determine *where* you want to go and force you to focus on *how* to reach that destination. Organize stages or steps and establish benchmarks. Consulting other professionals for suggestions and wisdom is another valuable strategy.

Check your insurance coverage. Remember that once you make a permanent jump from being an employee to a business owner, you lose certain fringe benefits. Make certain you have established adequate **health** and **life insurance**, as well as **disability coverage** before you embark on your new career as business owner.

No one can measure your emotional or intellectual fortitude or what motivates and drives you. So, when you've done your homework, developed a strong business plan, secured enough start-up capital, and are ready to launch your venture, the sage advice might be: *"Don't think about it, just do it."* $

Protecting Against Loss with Business Interruption Insurance

How long could you afford to be out of business? Many business owners who would never think of leaving their buildings and contents uninsured overlook how much it would cost them in lost earnings if operations were down for a period of time due to a natural or man-made disaster, or power outage. Continued business income is just as important to a "disabled" enterprise as continued wages are to a disabled individual.

Business insurance may be considered accident or disability insurance for a business, since it helps to maintain a regular flow of earnings after the business has been completely or partially shut down by disasters, including fires, tornados, and theft. **Business interruption insurance** is designed to pay for the lost net profits of the business plus any continuing expenses occurring during "down time" caused by a peril covered by the policy.

There are many different forms of business interruption insurance, and the price can vary greatly based on the level of risk and the potential cost of getting the business up and running again after a disaster strikes. While business interruption insurance is sometimes included in business owner policies (BOPs), the type and amount of coverage provided by a standard policy may be insufficient for the needs of many companies. So, a complete analysis would be necessary to determine which type of business interruption insurance is best suited to your business needs.

Most manufacturing firms require gross earnings coverage. When the value of a firm's future gross earnings is properly estimated, any noncontinuing expenses may be deducted to arrive at a figure that represents the firm's net profit plus any continuing expenses accrued had no interruption occurred. The continuation of a profit stream is therefore allowed to flow through to the firm, and can even compensate key employees who might otherwise be lured away by competitors during an enforced shutdown.

Many commercial enterprises are unable to afford a closure and must remain in operation even though property has been damaged, either because of the nature of the business or that a shutdown might result in a permanent loss of business. For example, banks, supermarkets, and health care facilities typically need to make arrangements for continued operation even if a permanent location is damaged or destroyed. Under these circumstances, **extra expense insurance** would be more appropriate to help pay more than the normal expenses that are needed to keep the insured in business. Overtime wages for employees, extra travel, and the cost associated with substitute or makeshift facilities could be covered by extra expense insurance, which would contribute to retaining company visibility.

Consider your business interruption policy options carefully. Due to the nature of some businesses, both gross earnings coverage and extra expense insurance may be necessary to cover overlapping areas of exposure. You may be able to lower the cost of the premiums—and reduce the chances that you will have to file a claim in the first place—by taking steps to protect your firm's premises from natural disasters and crimes. You may, for example, want to consider improving the fireproofing or waterproofing of your buildings, or install a sophisticated security system.

While many plans include a 30-, 60-, or even 90-day waiting period, a review of your company's situation may reveal that an extended waiting period would cause serious damage to your business. Remember that if the firm were forced to shut down temporarily, your company's earnings could continue to suffer even after reopening. Be sure to review your business interruption policy for the provision of ongoing reimbursement for lower sales volumes after operations have resumed. The key is to complete an analysis of the specific needs of your business and then obtain the amount of business interruption coverage you need before it is required. $

Stretching IRA Withdrawals

The primary concern of some traditional **Individual Retirement Account (IRA)** holders who are approaching the mandatory distribution age (April 1 of the year *after* the year they reach age 70½) may be stretching their account assets over their lifetime and that of their spouse. Maximizing tax deferral and/or passing these assets to their heirs may be of lesser importance. Others, however, who are fortunate enough to enjoy sufficient retirement income from other sources, may wish to extend the tax deferral as long as possible.

Regulation reform finalized in 2002 makes this task much easier. In response to Americans living longer, healthier lives, the Internal Revenue Service (IRS) increased the life expectancy figures on which **required minimum distributions (RMDs)** are based. As a result, RMD amounts have decreased, and IRA owners are now allowed to withdraw *less* than was necessary under the original distribution rules. For most, RMDs are calculated using a uniform table **(uniform lifetime table),** which assumes a **beneficiary** is fewer than ten years younger than the owner, regardless of the beneficiary's actual age. If the IRA owner has named his or her spouse as the sole beneficiary, and the spouse is ten or more years younger than the owner, a second table **(joint life and last survivor expectancy table)** may be used to calculate the RMD.

Beneficiary Choices

Married individuals quite often name a spouse as the beneficiary of an IRA. If the IRA owner dies prior to, or after, the mandatory minimum withdrawal date, only a surviving spouse can choose to make an inherited IRA his or her own. This would postpone mandatory distributions until April 1 of the year after the year in which he or she reaches age 70½.

In contrast, a nonspousal beneficiary is more limited and must begin taking distributions from an inherited IRA by the end of the year following the year of the owner's death. With the legislative changes, however, the consequences of beneficiary choices are no longer dependent on whether the IRA owner died *before* or *after* starting the required withdrawals, simplifying planning decisions. Unlike the old rules, such distributions no longer must continue to be based on the owner's original life expectancy calculation, but may now be stretched out over the life expectancy of the beneficiary, significantly extending the potential benefits of tax deferral.

What's the Advantage?

These simplified rules should make it easier for some retirees to meet the minimum distribution requirements, thereby avoiding unnecessary penalties, while enabling the greatest possible buildup of their tax-deferred assets. However, IRA owners should be aware that any such buildup could potentially lead to higher estate taxes down the road. If you have an IRA and have reached (or are approaching) age 70½, it may be best to consult a qualified tax and financial professional for assistance with your particular circumstances. $

Keep Land in the Family with Conservation Easements

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Tax Benefits

Because the land or building can no longer be used for development, conservation easements generally result in a significant reduction in the market value of the property. This difference in value is the basis for awarding tax incentives to landowners who preserve land or buildings for future generations. Under Section 170(h) of the Internal Revenue Code, landowners may be eligible for a Federal income tax deduction equal to the value of their easement donation, as determined by a qualified appraiser. The value of the easement donation is equal to the difference between the fair market value of the property before and after the easement went into effect.

The Federal income tax incentives that permitted conservation easement donors to deduct the value of their donation at the rate of 50% of their adjusted gross income (AGI) per year, and also allowed farmers and ranchers who derive 50% or more of their income from agriculture, to deduct the gift at a rate of 100% of their AGI expired on December 31, 2011. The conservation community is working on proposals for a retroactive extension to permanently expand these incentives. However, without further legislation, incentives revert to pre-2008 levels of 30% of AGI deduction for qualifying land or easement donations.

The IRS warns against abuses by some taxpayers of conservation easements, especially façade easements. In the past, appraisals have sometimes been inflated, easement restrictions have not been honored, and façades already protected by local zoning ordinances have been donated, and therefore did not qualify. In such cases, the IRS states that deductions on the proposed easements will be disallowed, and excise taxes and penalties will be imposed.

Estate Planning

Donating a conservation easement can also be a useful estate planning tool, reducing the chances that heirs in families who are "land rich, but cash poor" may be forced to sell the land to cover the taxes owed. Because the development rights have been extinguished, the value of the land may be lower, thereby reducing the potential estate tax liability. Further, under Section 2031(c) of the Internal Revenue Code, up to an additional 40% of the value of land (but not of historic property) may be excluded from the estate when the landowner dies. The maximum amount of the exclusion is $500,000. The heirs of a landowner may also take advantage of these benefits, excluding the income tax deduction, by electing to donate a conservation easement after the landowner's death and prior to filing the estate return. This is called a "post mortem" election.

It is important for landowners or their heirs to keep in mind that, while the conservation easement is permanent and irrevocable from the perspective of the owner, the land may still be taken by eminent domain if the government asserts that the public value of the proposed project exceeds that of the conservation interest being protected by the easement. And, while donating an easement can lower income taxes, local property taxes may not be significantly reduced if the land continues to be used for agricultural purposes.

If you are considering a conservation easement, be sure to consult a qualified tax professional to help guide you through the process. $

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