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The Journey: Families and money can be a troublesome combination

By Janet Kidd Stewart Tribune News Service (TNS)
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When it comes to money and family, is there ever a “right” answer?

A widow with a toddler child recently confided that her late husband’s family contacted her right before this month’s tax-filing deadline.

In a confusing phone call, the relative told her the family wanted to include her son’s Social Security survivor benefits in a tax return having to do with a family estate. Including the child’s benefits would reduce the estate’s tax bill by several thousand dollars, and the child would benefit from the proceeds of the trust later in life, the relative said.

While that sounded positive, the widow was rightly concerned about the details. If her young son is listed on a tax return now, will it be a red flag for an audit or otherwise create a tax burden for her son or for her in future years?

And there are a host of other issues that potentially could present problems, experts say.

“In her case, it sounds like there are a lot of things going on. People sometimes can be short-sighted in saving tax dollars today without thinking about longer term issues,” said Janis Cowhey, a partner who specializes in trusts and estates for Marcum LLP.

For example, will the assets given in the child’s name hurt his chances for receiving financial aid for college down the road?

Even if the widow trusts that the family isn’t trying to use his Social Security number or income for wrongdoing, they might still simply be trying to score a small gain now at a higher future cost, Cowhey said. If the child has his own trust, for example, does it now have an offsetting tax obligation from the money “saved” by the estate?

“Sometimes even families present only enough facts so that it looks like a no-brainer, but you have to consider everyone else’s tax implications,” she said.

Another area where families often fail to communicate centers on timing, said Casey Robinson, a financial planner with Waldron Private Wealth.

Even families who don't have multiple millions to pass down should consider using a revocable living trust to create a timetable for heirs to receive money, he said. Many families today stagger inheritances until an heir turns 35 or even older, he said.

"You don't necessarily want an 18-year-old to get $100,000 all at once," he said, so it's important to let adult children know the reasons for staggering the funds.

Cowhey agreed.

"People always say, 'I know my kids,' but even great kids get into bad business situations or car accidents" that can strip away unprotected funds quickly, she said.

She often recommends giving heirs assets in three tranches, say, at 25, 35 and 45. She also advocates giving plenty of discretion to the trustee overseeing the estate. Trying to control too much ahead of time in a trust document will invariably fail to take into account changing fortunes, tax laws or serious health issues, she said.

Finally, she urges clients to consider establishing children's' trusts, without setting up mandatory distributions to receive inheritances, rather than leaving assets to children directly. This way, if an adult child marries without a prenuptial agreement, the assets are generally protected if the marriage fails. Still, it's important to ask a qualified attorney about the exceptions and caveats.

As Robinson says, the most important piece is communicating now, because later might not happen.

"I've had plenty of experience with families who come in after a death, each one saying grandma's house was supposed to be theirs," he said.

Don't be that grandma.