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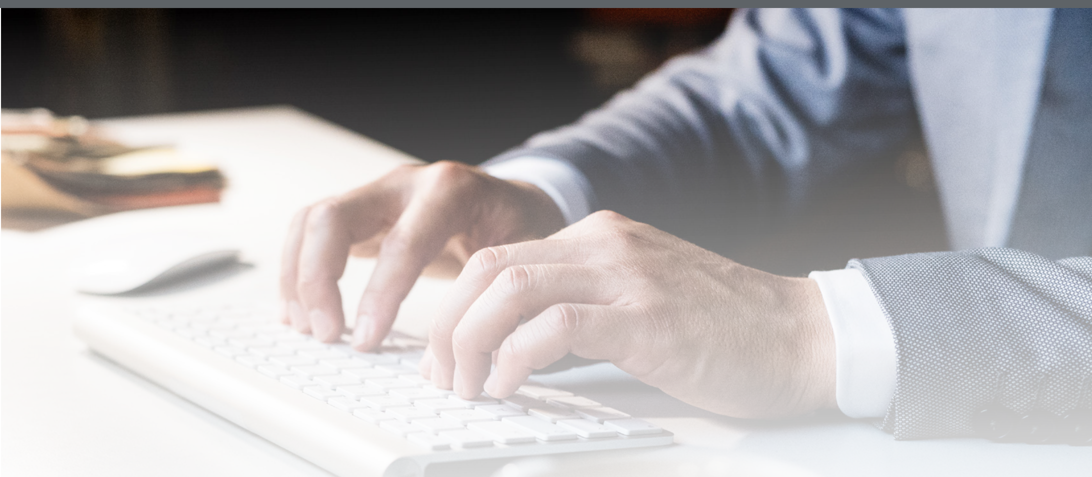
Sentinel Trust
Together, families prosper℠

OnWatch



Thwarting Emerging CYBER THREATS

Richard A. LaFont, CPA
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The increasing sophistication of websites and smart devices has enabled us to perform more of our daily financial and personal interactions from the palms of our hands. From digital grocery orders to bourgeoning telehealth solutions to investing and banking, our proclivity for online solutions has accelerated during the pandemic. Despite the ease and efficiency of these activities, they also come with increased opportunities for cyber criminals. As we see record levels of cyber attacks, being aware and taking some basic precautions can limit your chances of becoming a victim.

Here's a personal cybersecurity checklist:

1. Do not click on links or open attachments in unsolicited emails or text messages

Phishing emails, often appearing to come from an organization or individual you know, are a primary way of initiating cybercrime. Even if you know the sender, try to verify that the email or text is legitimate. You can hover your mouse over an email link to confirm the destination before proceeding.

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About Sentinel Trust Company

Sentinel Trust Company, LBA is an independent wealth management firm and multi-family office that provides comprehensive wealth and succession planning, fiduciary, investment management, philanthropic, and family office services to a select group of affluent families and their closely held entities and foundations. Founded in 1997 as the successor to two 40-plus-year old single-family offices, Sentinel Trust currently serves more than 30 multi-generational families nationwide and is responsible for approximately $5 billion in assets as of December 31, 2020.

Learn more at
www.sentineltrust.com.

Clicking links and opening documents may install malware on your device. Illegitimate emails appearing to be from Amazon, PayPal, and others with links to "restore" your account have become popular. Never use a link received in an email to access a financial institution's website; always go directly to the website via your web browser or the institution's app.

2. Be wary of any request that is described as "rush" or "urgent"

Criminals take advantage of stress related to urgency to get people to forgo typical process and procedures. For example, criminals love to pose as the IRS on the phone or in an email claiming you will have a judgment against you if you do not settle your IRS debt urgently. The IRS will never call or email you out of the blue for such a request.

3. Freeze your credit reports and closely monitor your accounts

Freezing your credit reports with the three major credit monitoring services will prevent a thief from obtaining credit in your name if your personal data is compromised. Monitoring your bank accounts and credit lines closely will allow you to spot fraudulent activity and react quickly.

4. Do not share personal information on the phone or via email

If you are contacted by someone, perhaps purporting to be a company you do business with, and they request personal or financial information from you, hang up. Then find a direct, verifiable phone number and call the company. Do not use a phone number provided by the caller for this return call.

5. Don't reuse the same password

If you use the same password across multiple websites and applications, you open all your accounts to vulnerability if your password is compromised. Consider using multiple, longer passwords with special characters, numbers, and upper-case letters. We recommend that you use an encrypted password manager to keep track of your passwords. That way, you only need to remember the password manager's password (and make it a "strong" password). It's also advisable to enable multi-factor authentication when available.

6. Limit social media postings

Lock down your privacy settings and limit the posting of any personal data on social media. Cyber criminals can use this information to guess answers to your security questions on other websites.

7. Keep systems up to date

Keep your software (including a reliable anti-virus product), operating systems, and browsers up-to-date. This will give you the most updated security features to help protect your systems. This recommendation applies to all devices: computers, phones, tablets, WIFI routers, etc.

8. Shred financial documents

Do not throw away anything that has personal information. When in doubt, shred documents that may provide a benefit to fraudsters. You also should make sure that sensitive documents (like tax returns and bank statements) are stored in a secure location.

9. Make sure that your family members use this checklist, too

Enough said!

Criminals are utilizing increasingly sophisticated methods and have numerous digital entry points into our financial and personal lives. Simply complying with the above recommendations will go a long way to protecting you and your family. ■

> "Consider using multiple, longer, passwords with special characters, numbers and upper-case letters."

IT'S ALL IN THE TIMING

Ross W. Nager, CPA
Of Counsel

There are many issues and variables to consider in connection with wealth transfer planning to reduce estate taxes. To mention just a few:

- Can I afford to part with the wealth?
- Can I keep control over what I transfer?
- Will my kids squander what I give them? Will their newfound wealth destroy their work ethic and social values?

Yes, those sound tough, but I could argue that perhaps the most vexing issue is the one that clients easily can, but often fail to, exercise control over: timing. Unfortunately, there is an amazing confluence of events that might make the next few months the best time ever to undertake wealth transfer planning. The window for action may close quickly with little notice.

Depressed Value (or Value about to Skyrocket)

The best time to transfer an asset is when the value is low and is expected to grow in the future. There are two reasons:

- Post-transfer income and appreciation escape estate taxation at your death.
- The tax law imposes a cap (known as the "gift tax exemption") on how much wealth you can transfer during your life (or at death). Transferring property now, before it grows in value, uses less of your exemption.

If you think that an asset is undervalued, and/or you think that the market for it is positioned for significant growth, transferring the asset before it grows is the best time to maximize your wealth transfer opportunity. Or if you are anticipating a market collapse (e.g., due to COVID-19 resurgence), you need to be getting ready with the mechanics of your wealth transfer strategy so that you can implement it if and when the collapse occurs.

Selling or Going Public

Some people have a unique ability to improve their odds of transferring wealth before significant growth occurs. For example, suppose you are thinking of selling your business. You can transfer part of the stock ahead of time to your kids and claim valuation discounts for both a lack of control (since you transfer a minority interest) and for lack of liquidity (since there is no public market for the stock). When the company is sold, the kids receive their pro-rata shares of the full value without those discounts.

Suppose you are thinking of taking your company public. Chances are that the simple act of going public causes an increase in stock value—perhaps the public offering eliminates the lack of marketability discount inherent in a minority interest in closely-held stock. But you have to transfer stock to the kids while an appraiser can discount the odds of the offering actually happening. The discount decreases when the offering is first proposed and decreases further overtime as the offering's likelihood becomes more certain. SEC-imposed restrictions on post-offering stock transfers also can give rise to discounts. You'll need to involve counsel in evaluating any restrictions on transfer.

In each case, the key is transferring the asset before you get too far down the path of going public or selling the business.

Potential Tax Law Changes

The gift exemption for an individual is at an historical high in 2021 at $11.7 million; a married couple can transfer double that amount. Under current law, the exemption will be reduced to $5 million plus inflation beginning in 2026. If you don't use the higher amount before it is reduced, you will lose the opportunity to transfer that excess with no tax.

COVID-induced budget deficits may cause Congress to start looking for ways to raise additional revenue. One of the ways may be through the repeal of some of the tax provisions enacted under the Tax Cuts and Jobs Act of 2017, including the increased gift and estate tax exemption.

Congress also may restrict or eliminate the use of grantor retained annuity trusts (GRATs), sales to defective grantor trusts, or family limited partnerships (FLPs). You may see a reduction or elimination of the discounts currently available for lack of marketability and control discussed above.

We may also see Congress reduce the generation-skipping tax (GST) exemption or limit the use of trusts that eliminate gift, estate, and GST taxes in perpetuity.

Time may be of the essence as the effective date of these types of changes historically is pegged to the date the change is proposed (as distinguished from the date the law actually is enacted). Wealth transfers occurring before a law-change proposal typically are grandfathered.

Low Rates

Some wealth transfer planning strategies work best with low interest rates. Have you noticed that interest rates are near record lows? For example, if you sell an FLP interest to your kids (or, better yet, a defective grantor trust for their benefit) in exchange for a three- to nine- year note, you were likely to transfer far more wealth at the December 2020 required interest rate of 0.45% than the 3.07% rate in December 2018. GRATs work better in a low-rate environment, too.

It is important to recognize that effective wealth transfer planning can take time to implement. If you don't know about the GRAT, defective trust, FLP or generation skipping strategies I mentioned above, you have validated my point that timing is important. Sophisticated planning requires time to analyze and understand alternatives, draft documents (like trust instruments), run financial projections, etc. You need time to work with your advisors.

Family-Issue Inertia

"But Ross," you say, "If the kids squander the money, why does it matter if I maximize the amount transferred and minimize the tax cost of doing so? It's the non-financial issues that are keeping me from acting." Indeed, the issues that I mentioned or alluded to at the beginning of this article are more important than beating Uncle Sam out of a few more bucks.

Unfortunately, most wealthy people start with the assumption that these issues are unresolvable. The resulting inertia prevents them from taking action. The consequence? Missed opportunities to transfer wealth when the timing is right. Talk to your advisors; they can help you understand how to resolve the truly difficult and most important issues so that you can take action when the time is indeed right.

The clock is ticking. ■

TAX RECORDS *Trash or Treasure?*

Katherine M. Rose, MBA, CFA
Senior Investment Officer, Vice President

Taxes are never a pleasant discussion topic and, once a tax return is filed, the last thing you want to think about is how long you need to retain your "shoebox" of receipts and other supporting materials. However, if you are audited by the IRS, failing to keep appropriate documentation can cost you a lot of time and money.

The basic premise is that you should keep documentation until the statute of limitations "runs." That's the time period in which the IRS has the legal authority to audit a return. In general, there are two statutes of limitations. The primary one expires three years after a return is filed (or April 15 of the third year if you filed early). A secondary rule extends that to six years if there is a "substantial understatement of income," meaning you've omitted more than 25% of the income required to have been reported.

Purchasing an asset presents a longer-term retention requirement. Suppose you purchase a tract of land during 2020. When you sell the land in 2040, you'll need the 2020 purchase documentation to support your income tax basis used to calculate the taxable gain or loss in your 2040 return. Then you'll need to retain that 2020 purchase information for at least 3 years after you file your 2040 return. That's a retention requirement of over 23 years!

The following are some rules of thumb for retaining documents:

- **ONE YEAR** – Pay stubs and brokerage statements, which can be used to verify the accuracy of W-2 forms and capital gains and losses reported on 1099 forms by investment firms. Having said that, we recommend retaining brokerage statements three years after a tax return is filed for the year in which securities are sold.
- **THREE YEARS** – All documents that support income, deductions, and credits claimed on your tax return. Examples include W-2 forms, 1099 forms, 1098 forms, charitable contribution support, health savings account documents, 529 plan documents, and contributions to retirement accounts.
- **SIX YEARS** – If you are self-employed, retain Forms 1099 that support revenues received by your business.

Other Situations

If you inherit property, or receive property as a gift, retain records relating to cost basis for three years after you sell the property. Cost basis for inherited property generally is fair market value on the date of the decedent's death. Cost basis for property received as a gift generally is the donor's cost basis. The executor or donor hopefully can provide that documentation.

Homeowners should retain documents related to the purchase of and improvements to the home for at least three years after the sale of the home. Also, hold on to records of expenses incurred during the transaction process, including legal fees and real estate commissions. These expenses are included in your capital gain calculation and improvements made to your home are added to the original purchase price, thereby decreasing your capital gain.

Bad debts and worthless securities may be deductible on your return in the year that the loan becomes uncollectible or the securities become worthless. However, the IRS often asserts that the loss event occurs later than the taxpayer thinks. So you probably should retain the related documentation for several years longer than the typical three years just in case you are forced to defer the loss to a later year.

With so much of our lives online these days, be careful about assuming that your credit card companies, banks, brokerage firms, etc. retain copies of your statements and cancelled checks for the required time periods discussed above.

You must be able to support items included in your tax return. Reconstructing your data can be time consuming and expensive. It is easier in the long run to hold onto your records for the time periods that they might be needed to fend off an inquisitive IRS agent. Keeping records in a secure, safe, and easily accessible place is the best way to avoid unnecessary expense and taxes in an IRS examination.

Sentinel Trust Company is a family-owned, multi-family office focusing on the unique needs of affluent families and their closely held companies and foundations. Sentinel Trust provides advice on investment, tax, and estate strategies, serves as corporate trustee, and provides lifestyle services with a personal touch.

Together, families prosper SM

Founded in 1997 as the successor to two established, investment-focused single family offices, Sentinel Trust offers the stability of an institutional firm, the entrepreneurial spirit of a young firm, the personal feel of a family office, and the in-house technical skills of independent planning and investment management firms.

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