

Cliff's Notes

4th Quarter Newsletter | Volume 18 | Issue 4

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Federal Income Tax: How Did We Get Here?

 by Cliff Robello

April 16, 2019 was an important day for many of us. But do you know why? It was Tax Freedom Day — the day when the average American theoretically earned enough to pay his or her tax obligations for the year. According to the Tax Foundation, Americans will pay \$3.4 trillion in federal taxes in 2019, more than they spend on food, clothing, and housing combined. * But it wasn't always this way. In fact, income taxes are a fairly new development in the overall history of America. So how did we get to this point?

In the beginning...

The United States was founded, in part, on the premise that colonists didn't want to pay taxes without representation, which led to the famous tossing of tea into the Boston Harbor and the American Revolution. However, not long after the colonies gained their freedom from England, Congress passed the Stamp Act of 1797, which essentially was our nation's first estate tax. Otherwise, from the early 1790s to 1802, the U.S. government was supported by taxes on such items as spirits (alcohol, not the ghostly kind), sugar, tobacco, and corporate bonds.

Wars played a big part in the history of taxation in this country. To fund the War of 1812, Congress taxed sales of gold, silverware, jewelry, and watches. In 1817, tariffs on imported goods provided the main source of revenue to run the government.

With the onset of the Civil War, Congress enacted the nation's first income tax law, the Revenue Act of 1861, which included a flat tax of 3% on annual incomes exceeding \$800 to help pay for the costs of the war. That tax law was repealed and replaced by the Revenue Act of 1862, which established the Office of the Commissioner of Internal Revenue (forerunner to the Internal Revenue Service), levied excise taxes on most goods and services, and replaced the flat tax with a progressive tax.

The 16th Amendment

However, it was not until 1913 with the adoption of the 16th Amendment to the Constitution, that the income tax became a permanent fixture in the American tax system. Congress now had the authority to tax income of both individuals and corporations. It didn't take the IRS long to start inundating us with forms, beginning in 1914 with the introduction of the first income tax form, the dreaded Form 1040. Enactment of the Revenue Act of 1916 introduced tax rates and income scales.

Tax rates

Here's a sobering fact: In 1913, the top federal income tax bracket was 7% on all income over \$500,000, and the lowest tax bracket was 1%. During the Great Depression, Congress raised the highest tax bracket to 63%. Wars can be expensive, as evidenced by the jump in the highest tax rate to 94% during World War II. In 2018, the highest income tax rate was lowered to 37%.

Trying to get it right

Over the years, there have been frequent attempts to reform the tax law in some manner. We've seen the adoption of the alternative minimum tax, Social Security tax, taxes on cigarettes and alcohol, gasoline taxes, aviation taxes, property taxes, telecommunication taxes, not to mention state and local taxes. To quote Will Rogers, "The difference between death and taxes is death doesn't get worse every time Congress meets."

Tax laws are always changing and will likely remain a political hot potato. Only time will tell what changes are ahead, but there is no doubt that through taxation, what the government giveth, it inevitably taketh back again.

Key Estate Planning Documents

 by Cliff Robello

There are four key estate planning documents almost everyone should have regardless of age, health, or wealth: a durable power of attorney, advance medical directives, a will, and a letter of instruction.

Estate planning is the process of managing and preserving your assets while you are alive and conserving and controlling their distribution after your death. There are four key estate planning documents almost everyone should have regardless of age, health, or wealth. They are a durable power of attorney, advance medical directives, a will, and a letter of instruction.

Durable power of attorney

Incapacity can happen to anyone at any time, but your risk generally increases as you grow older. You have to consider what would happen if, for example, you were unable to make decisions or conduct your own affairs. Failing to plan may mean a court would have to appoint a guardian, and the guardian might make decisions that would be different from what you would have wanted.

A durable power of attorney (DPOA) enables you to authorize a family member or other trusted individual to make financial decisions or transact business on your behalf, even if you become incapacitated. The designated individual can do things like pay everyday expenses, collect benefits, watch over your investments, and file taxes.

There are two types of DPOAs: (1) an immediate DPOA, which is effective at once (this may be appropriate, for example, if you face a serious operation or illness), and (2) a springing DPOA, which is not effective unless you become incapacitated.

Advance medical directives

Advance medical directives let others know what forms of medical treatment you prefer and enable you to designate someone to make medical decisions for you in the event you can't express your own wishes. If you don't have an advance medical directive, health-care providers could use unwanted treatments and procedures to prolong your life at any cost.

There are three types of advance medical directives. Each state allows only a certain type (or types). You may find that one, two, or all three types are necessary to carry out all of your wishes for medical treatment.

- A living will is a document that specifies the types of medical treatment you would want, or not want, under particular circumstances. In most states, a living will take effect only under certain circumstances, such as a terminal illness or injury. Generally, one can be used only to decline medical treatment that "serves only to postpone the moment of death."
- A health-care proxy lets one or more family members or other trusted individuals make medical decisions for you. You decide how much power your representative will or won't have.
- A do-not-resuscitate (DNR) order is a legal form, signed by both you and your doctor, that gives health-care professionals permission to carry out your wishes.

Will

A will is quite often the cornerstone of an estate plan. It is a formal, legal document that directs how your property is to be distributed when you die. If you don't leave a will, disbursements will be made according to

state law, which might not be what you would want.

There are a couple of other important purposes for a will. It allows you to name an executor to carry out your wishes, as specified in the will, and a guardian for your minor children.

The will should be written, signed by you, and witnessed.

Most wills have to be probated. The will is filed with the probate court. The executor collects assets, pays debts and taxes owed, and distributes any remaining property to the rightful heirs. The rules vary from state to state, but in some states smaller estates are exempt from probate or qualify for an expedited process.

Letter of instruction

A letter of instruction is an informal, nonlegal document that generally accompanies your will and is used to express your personal thoughts and directions regarding what is in the will (or about other things, such as your burial wishes or where to locate other documents). This can be the most helpful document you leave for your family members and your executor.

Unlike your will, a letter of instruction remains private. Therefore, it is an opportunity to say the things you would rather not make public.

A letter of instruction is not a substitute for a will. Any directions you include in the letter are only suggestions and are not binding. The people to whom you address the letter may follow or disregard any instructions.

Take steps now

Life is unpredictable. So, take steps now, while you can, to have the proper documents in place to ensure that your wishes are carried out.



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How can I teach my high school student the importance of financial literacy?

 by Cliff Robello

Even though your child is just in high school, he or she may still have to deal with certain financial challenges. Whether this involves saving for an important purchase like a car or learning how to use a credit card responsibly, it's important for your high schooler to have a basic understanding of financial literacy concepts in order to manage his or her finances more effectively.

While financial literacy offerings in schools have increased in popularity, a recent study reported that only 17 states require high school students to take a personal finance course before they graduate.¹ Here are some ways you can teach high school students the importance of financial literacy.

Advocate saving

Encourage your children to set aside a portion of any money they receive from an allowance, gift, or job. Be sure to talk about goals that require a financial commitment, such as a car, college, and travel. As an added incentive, consider matching the funds they save for a worthy purpose.

Show them the numbers

Use an online calculator to demonstrate the concept of long-term investing and the power of compound interest. Your children may be surprised to see how fast invested funds can accumulate, especially when you match or contribute an additional amount each month.

Let them practice

Let older teens become responsible for paying certain expenses (e.g., clothing and entertainment). The

possibility of running out of their own money might make them think more carefully about their spending habits and choices. It may also encourage them to budget their money more effectively.

Cover the basics

By the time your children graduate from high school, they should at least understand the basic concepts of financial literacy. This includes saving, investing, using credit responsibly, debt management, and protection planning with insurance.



...AND I HAVE 75 MORE DEPENDENTS AT HOME.

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What's Happening at CMR...

Cliff...

Stephen and his family spent three weeks in August with us. Michelle and I had so much fun. We are blessed! On August 24th I had my first hole in one on the 4th hole at Mid Pac Country Club. It was 142 yards, and I hit an 8 iron. I am out of the no hole in one club.



Margaret...

Baylee (7) and Haidyn (1) enjoying their time at Chucky Cheese... I can't believe how fast they have grown. Looking forward to the holiday season!



Sheri, and Zane...

Another quarter has gone by. Our daughter is 13 months and we had a first birthday luau for her. My brother and family came to visit during that time and the kids had such a great time together. Our son started Pre-School in August and loves going. Its crazy to think that the holiday season is right around the corner. Time to start preparing.



Roxanne...

End of summer for these boys before my oldest grandson heads back home to Washington. Thank you Zaia for including us in your 1st birthday celebration!



Whitney.....

2019 is flying by its almost 2020! My Family and I went to Oregon this summer to attend our niece's college graduation. There were 18 of us on this trip and we all had a great time! Hope everyone had a great summer!





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Transform Families

Vision:

Moving you to Financial
Contentment

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