

LIFE EVENTS

Buying or Leasing Your Next Car: Frequently Asked Questions

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Should I lease or buy my next car?

Will you save money leasing instead of buying? It depends on four things: (1) how good a deal you can strike with the dealership, (2) how many miles you put on a car, (3) how much wear and tear you put on a car, and (4) what the car will be used for.

To decide whether to lease or buy, compare the costs and other factors involved with both leasing and buying. Consider the following factors:

- Your initial costs
- Your ongoing costs
- Your final costs and option rights
- Whether you will be able to deduct any of the costs of the car because it will be used in a business
- Whether having an ownership interest in the car is of overriding importance

How do I get the "best buy" when buying a new car?

First, decide on the size and type of car you want, and then decide what options you want (e.g., automatic, air conditioning, anti-lock brakes).

Second, find out what the car dealer is paying for the car(s) you're interested in. This is known as the dealer invoice cost. This is important because the difference between the invoice price and the sticker price is the amount that can be negotiated.

There are two different ways to go about getting this information. The first (and best) way is to use an auto pricing service provided by a consumer group or an auto magazine such as [Consumer Reports New Car Price Service](#). This service gives you a complete run-down of the invoice price and the sticker price, adjusted for various options, as well as any rebates or factory incentives. And it tells you how to use the information in negotiating your new car's price. In addition, using an auto pricing service provides you with the most up-to-date information. The second way is to use pricing guides found on the Internet, such as [Edmund's New Car Prices](#).

If you have a car to trade-in, you'll want to find out what it's worth, too. You can do this by looking up your used car in the N.A.D.A Official Used Car Guide, available online (www.nadaguides.com) or at the library.

The next step is to begin negotiating with car dealers. Now that you know the invoice price, use that information to bargain for the lowest possible markup over the dealer's cost.

Generally, \$300 to \$500 over the dealer's cost is a reasonable mark-up, unless the car you want is either hard to get or an extremely popular, exotic or sporty model.

Resist any attempts by dealerships to sell you undercoating, rust-proofing, or other extras. Depending on the repair history of your model, however, you might want to invest in the extended warranty.

How should I negotiate for a new car?

Remember that you are not only shopping for a car; you are choosing a dealer, with whom you will have a long-term relationship as you'll bring your car in for servicing. So if you don't like the dealership, go elsewhere.

As far as timing of purchase, the last Saturday of September, October, or December is generally a good time to get a good bargain on a car because sales managers are scrambling to meet their quotas for month and year-end.

Find out about financing alternatives before you begin shopping for a car. If you know what banks are charging, you will be prepared when the dealer talks about financing.

Here are some of the main points you'll want to get across during your negotiations:

- You know the exact model you want, and which options you want.

- You are comparison shopping, and will obtain price quotes from other dealers.
- You will not discuss financing or trade-ins until the dealer has made you an offer (do not mention a trade-in until you have finished negotiating the price of your car).
- You know how much the car cost the dealer.

Finally, even if you get what sounds like a good price, go to other dealers to get quotes.

Should I negotiate a car lease the same way as I purchase a car?

Similar to a loan, the monthly lease payment depends on the lease terms, the initial "purchase price" of the vehicle, and the interest rate. Unlike a loan, another important factor is the "lease-end" or "residual" value. This is the expected value of the car at the end of the lease term.

In a lease you are effectively paying for the difference between initial purchase price and residual value. You should negotiate the best possible (i.e. lowest) purchase price because this will lower your cost of leasing. If it is a closed-end lease and you do not intend to purchase the car at the end of the lease term, you should also try to negotiate a higher residual value.

If you walk into a dealership and ask to lease a car, they will often try to base the lease on the Manufacturer's Suggested Retail Price (MSRP). You would never pay this sticker price to purchase a car for cash, so you should not do so in a lease situation.

The first step is to negotiate the lowest possible price on the vehicle and then negotiate the lease terms. For example, assume a Lexus sedan has an MSRP of \$36,955 (and the lease provides for a term of 36 months, an implicit interest rate of 6.67% and a residual value of \$25,895). Based upon this MSRP, the monthly lease payment would be \$481.50, excluding sales/use tax, licenses, etc.

The invoice (dealer) cost on the same vehicle is \$32,469. If you negotiated a price between MSRP and invoice, say \$34,750; the lease payment would be reduced to \$416.00.

How does an auto lease work?

There are two types of lease arrangements: closed-end ("walk-away") and open-end (finance). Here's how they work:

Closed-End: The Dealer Bears the Risk of Depreciated Value

When a closed-end lease is up, you bring the car back to the dealership and "walk away." You must return the car with only normal wear and tear and with less than the mileage limit specified in your lease. Since the dealer is bearing the risk that the value of the car at the end of the lease will go down, your monthly payment is higher than with an open-end lease.

Open-End: You Bear the Risk of Depreciated Value

With the open-end lease the customer bears the risk that the car will have a certain value (called the "estimated residual value") at the end of the lease. The monthly payment is lower because of this risk.

When you return the car at the end of the lease, the dealer will have the car appraised. If the car's appraised value is at least equal to the estimated residual value in the agreement, you won't need to pay anything at the end of the lease term. Under some contracts, you can even receive a refund if the appraised value is higher than the residual value stated in the contract. If the appraised value is lower than the residual value, however, you may have to pay all or part of the difference.

What are the initial (up-front) costs of leasing a car?

In deciding whether to lease or buy, find out what your total initial costs will be. This is part of the total dollar amount you will arrive at to compare with the cost of buying.

"Initial costs" are the down payment you must come up with when you lease a car. They include the security deposit, the first and last lease payments, the "capitalized cost reductions," the sales taxes, title fees, license fees, and insurance. With a lease, the initial costs usually total less than the down payment needed to buy a car. Further, all initial costs are subject to negotiation during your bargaining with the dealer.

The Federal Consumer Leasing Act requires the Lessor to disclose all up-front, continuing and final costs in a standard, easy-to-read format.

What questions should I ask about a car lease?

Here is a list of questions you may want to ask the dealer before you enter into a car lease (you'll know some of the answers):

- What kinds of leases are available and what are the differences? We explained the two main types of leases earlier, but dealers may have variations.
- What are the initial costs of leasing the vehicle?
- Are there any ongoing costs associated with leasing?
- Does a trade-in decrease initial or ongoing costs?
- What happens if I exceed the mileage specified in my lease?
- How will my mileage allowance be enforced if I take an early termination or a purchase option?
- Can I sublease if I fall behind in my payments or want to stop leasing?
- What happens if I want to terminate my lease before the agreement is up?

Look for a "premature termination" clause, which provides for termination prior to the end of the lease term.

- What are my options at the end of my lease?

- What costs and charges can I expect to pay at the end of the lease?

Why is a security deposit required when I lease a car?

The Lessor is allowed to keep the security deposit if you owe money at the end of your lease or if you missed a monthly payment. The security deposit can also be used by the dealer to cover damage to the car or mileage in excess of the limit specified in the lease. If you do not owe any money on the lease at the end of the term, then your security deposit is returned to you.

How much can a dealer charge me at the end of an auto lease?

The Consumer Leasing Act (CLA) limits how much the dealer can collect at the end of the lease period. The CLA says dealers cannot collect more than three times the average monthly payment. However, the dealer can collect a higher amount in the following circumstances:

- The vehicle has unreasonable wear and tear, or miles greater than specified in the lease
- You agreed to pay a greater amount than specified in the original contract; or
- The Lessor wins a lawsuit asking for a greater amount.

The dealer also has the option of selling the car at the end of the lease term. If the car is sold for less than the residual value stated in your leasing contract, you could be obligated to pay as much as three monthly payments to make up the difference.

Although dealers will generally not risk the goodwill of their customers and sell leased cars for less than the residual value just to move the car quickly, you may want to negotiate to include the right to approve the final sales price of the leased vehicle as part of your lease agreement.

Here are a few other things you should know:

- If you stay under the mileage limit, you don't get a refund.
- If you buy a car at the end of a closed-end lease and you go over your mileage allowance, you probably won't have to pay for excess mileage.

What ongoing lease items must the dealer disclose?

The Consumer Leasing Act requires dealers to disclose the total number of payments, the amount of each payment, the total amount of all payments, and the due date or schedule of payments. There is usually a penalty for late payment, which the Lessor must also disclose to you.

What about maintenance?

Maintenance is part of the lease and specifies whether the dealer assumes the maintenance expenses or the customer (you) assumes these expenses. If the dealer is to provide repair and maintenance, you will have to bring the car to the dealership in accordance with the manufacturer's suggested schedule in order to keep the warranty coverage. Even if you have to pay for repair and scheduled maintenance, you usually have to observe the manufacturer's scheduled maintenance in order not to jeopardize warranty coverage.

What are the typical final (lease-end) costs?

Final costs include:

Excess mileage charges

Mileage limitations usually occur with a closed-end lease. If you have gone over the allowable mileage at the end of your lease, you will have to pay a fee.

Consider carefully whether the mileage allowance is enough. Make some calculations of the miles you have driven per week, month, and year to find out whether the mileage allowance is sufficient.

Be aware that the low-mileage lease deals currently popular in certain areas offer mileage limits that are insufficient for many people. If you think you need more than the allowable mileage, negotiate a larger mileage allowance in your lease.

If you buy a car at the end of a closed-end lease and you go over your mileage allowance, you probably won't have to pay for excess mileage.

If you stay under the mileage limit, you don't get a refund.

With an open-end lease, although there is no penalty, if you exceed the mileage limit the appraisal value at the end of the lease term will usually be lower.

Default fees

These cover any payments or security deposits that the dealer does not receive from you and legal fees and costs the dealer incurs to repossess the car.

Excessive wear and tear charges

You'll have to pay charges for excessive wear and tear when you return the car at the end of the lease unless the contract reads otherwise. The dealer must tell you in writing the specific definition of excessive wear and tear. Generally, it means anything beyond normal usage (mechanical or physical).

Disposition charges

These are the costs of cleaning the car, giving it a tune-up, and doing final maintenance. If the agreement does not state otherwise, the dealer may pass these costs on to you.

What is a lease-purchase option?

Your lease may include the option to purchase the car at the end of the lease term. This option is usually found in open-end rather than closed-end leases. The dealer must tell you the estimated residual value of the car and the formula that will be used to determine your purchase price at the end of the lease.

If you think you might want to buy the car, be sure the purchase option is in your lease before you sign it; otherwise you'll have to renegotiate later, at which time you may have less bargaining power.

What is a lease early-termination option?

If you terminate your lease after, say, 36 months on a 48-month lease, you will have to pay an extra charge, based on the difference between the residual value of the car at that time and the estimated residual value at the end of the lease term (stated in the contract). The difference between these two may be great. In most lease agreements, you must keep the car at least 12 months. Before you sign the contract the dealer must tell you whether you can terminate early and what the cost is.

What is a "capitalized cost reduction"?

This is similar to a down payment. The dealer may ask you to put a certain amount of money down before leasing. The amount of the capitalized cost reduction varies with the

business custom prevalent in the geographic area and the credit rating of the customer. The larger the down payment is, the smaller the monthly payment under the lease is; however, most people who want to lease instead of buy don't want to put down a large down payment, which is one of the major advantages of leasing.

Trading in your old car can reduce your down payment and/or your monthly payments.

Getting Married: Frequently Asked Questions

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Legal Rights: What are the major differences between married and unmarried couples?

When it comes to legal rights and being married vs. unmarried, there are several major issues to consider. Specifically, unmarried couples do not automatically:

- Inherit each others' property. Married couples who do not have a will have their state intestacy laws to back them up; the surviving spouse will inherit at least a fraction of the deceased spouse's property under the law.
- Have the right to speak for each other in a medical crisis. If your life partner loses consciousness or capacity, someone will have to make the decision whether to go ahead with a medical procedure. That person should be you. But unless you have taken care of some legal paperwork, you may not have the right to do so.
- Have the right to manage each others' finances in a crisis. A husband and wife who have jointly owned assets will generally be affected less by this problem than an unmarried couple.

What estate and financial planning steps are particularly important for unmarried couples?

The following steps are particularly important for couples who are not married:

Prepare a will. If both partners make out wills, the chances are that the intentions expressed in the wills will be followed after one partner dies. If there are no wills, the unmarried surviving partner will probably be left high and dry.

Consider owning property jointly. Joint ownership of property with right of survivorship is a way of ensuring that property will pass to the other joint owner on one joint owner's death. Real property and personal property can be put into this form of ownership.

Prepare a durable power of attorney. Should you become incapacitated, the durable power of attorney will allow your partner to sign papers and checks for you and take care of other financial matters on his or her behalf.

Prepare a health care proxy. The health care proxy (sometimes called a "medical power of attorney") allows your partner to speak on your behalf when it comes to making decisions about medical care, should you become incapacitated.

Prepare a living will. A living will is the best way to let the medical community know what your wishes are regarding artificial feeding and other life-prolonging measures.

Do married couples need life insurance?

The purpose of life insurance is to provide a source of income for your children, dependents, or whoever you choose as a beneficiary, in case of your death. Therefore, married couples typically need more life insurance than their single counterparts. If you have a spouse, child, parent, or some other individual who depends on your income, then you probably need life insurance. Here are some typical families that need life insurance:

Families or single parents with young children or other dependents. The younger your children, the more insurance you need. If both spouses earn income, then both spouses should be insured, with insurance amounts proportionate to salary amounts. If the family cannot afford to ensure both wage earners, the primary wage earner should be insured first, and the secondary wage earner should be insured later on. A less expensive term policy might be used to fill an insurance gap. If one spouse does not work outside the home, insurance should be purchased to cover the absence of the services being provided by that spouse (child care, housekeeping, and bookkeeping). However, if funds are limited, insurance on the non-wage earner should be secondary to insurance on the life of the wage earner.

Adults with no children or other dependents. If your spouse could live comfortably without your income, then you will need less insurance than the people in situation (1). However, you will still need some life insurance. At a minimum, you will want to provide for burial expenses, for paying off whatever debts you have incurred, and for providing an

orderly transition for the surviving spouse. If your spouse would undergo financial hardship without your income, or if you do not have adequate savings, you may need to purchase more insurance. The amount will depend on your salary level and that of your spouse, on the amount of savings you have, and on the amount of debt you both have.

Single adults with no dependents. You will need only enough insurance to cover burial expenses and debts, unless you want to use insurance for estate planning purposes.

Children. Children generally need only enough life insurance to pay burial expenses and medical debts. In some cases, a life insurance policy might be used as a long-term savings vehicle.

If one spouse changes their name after marriage, who should be notified?

You should notify all organizations with which you previously corresponded with your maiden name. The following is good list to start with:

- The Social Security Administration
- Driver's license bureau
- Auto license bureau
- Passport office
- Employer
- Voter's registration office
- School alumni offices
- Investment and bank accounts
- Insurance agents
- Retirement accounts
- Credit cards and loans
- Subscriptions
- Club memberships
- Post Office

Do I need to update my will when I get married?

Absolutely. Your will should be updated often, especially when such a significant life event occurs. Otherwise, your spouse and other intended beneficiaries may not get what you intended upon your death.

What are the tax implications of marriage?

Once you are married you are entitled to file a joint income tax return. While this simplifies the filing process, you may find your tax bill either higher or lower than if each of you had remained single. Where it's higher it's because when you file jointly more of your income is taxed in the higher tax brackets. This is frequently referred to as the "marriage tax penalty." Tax law changes in the form of marriage penalty relief were made permanent by the American Taxpayer Relief Act of 2012, and remained in place under the Tax Cuts and Jobs Act of 2017 with the exception of married taxpayers in the highest tax bracket.

You cannot avoid the marriage penalty by filing separate returns after you're married. In fact filing as "married filing separately" can actually increase your taxes. Consult your tax advisor if you have questions about the best filing status for your situation.

Under a joint IRS and U.S. Department of the Treasury ruling issued in 2013, same-sex couples, legally married in jurisdictions that recognize their marriages, are treated as married for federal tax purposes, including income and gift and estate taxes. The ruling applies regardless of whether the couple lives in a jurisdiction that recognizes same-sex marriage or a jurisdiction that does not recognize same-sex marriage.

In addition, the ruling applies to all federal tax provisions where marriage is a factor, including filing status, claiming personal and dependency exemptions,

taking the standard deduction, employee benefits, contributing to an IRA and claiming the earned income tax credit or child tax credit.

Any same-sex marriage legally entered into in one of the 50 states, the District of Columbia, a U.S. territory or a foreign country is covered by the ruling. However, the ruling does not apply to registered domestic partnerships, civil unions or similar formal relationships recognized under state law.

How can married couples hold property?

There are several ways of owning property after marriage, but keep in mind that they may vary from state to state. Here are the most common:

Sole Tenancy. Ownership by one individual. At death the property passes according to your will.

Joint Tenancy, with right of survivorship. Equal ownership by two or more people. At death, property passes to the joint owner's. This is an effective way of avoiding probate.

Tenancy in Common. Joint ownership of property without the right of survivorship. At death your share of the property passes according to your will.

Tenancy by the Entirety. Similar to Joint Tenancy, with right of survivorship. This is only available for spouses and prevents one spouse from disposing of the property without the others permission. **Community Property.** In some states, referred to as community property states, married people own property, assets, and income jointly; that is, there is equal ownership of property acquired during a marriage. Community property states are AZ, CA, ID, LA, NV, NM, TX, WA, and WI.

Getting Divorced: Frequently Asked Questions

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- Can I deduct the cost of getting a divorce?
- Who is entitled to deduct the dependency exemption of a child after divorce?

How do I prepare financially for divorce?

If you are considering divorce, it's vital to plan for the dissolution of the financial partnership in your marriage. This means dividing the financial assets and liabilities you have accumulated during the years of marriage. Further, if children are involved, the future support given to the custodial parent must be planned for. The time you take to prepare and plan for eventualities will pay off later on.

Here is what you can do:

1. Make a list of all of your assets, joint or separate, including:

- The current balance in all bank accounts
- The value of any brokerage accounts

- The value of investments, including any IRAs
- Your residence(s)
- Your autos
- Your valuable antiques, jewelry, luxury items, collections, and furnishings

2. Make sure you have copies of the past two or three years' tax returns. These will come in handy later.

3. Inventory your financial debts and obligations. This helps you to prepare in two ways:

- It will provide you with preliminary information for an eventual division of the property.
- It will help you to plan how the debts incurred in the marriage are to be paid off. Although the best way of dealing with joint debt, such as credit card debt, is to get it all paid off before the divorce, often this is not possible. Having a list of your debts will help you to come to some agreement as to how they will be paid off.

4. Make sure you know the exact amounts of salary and other income earned by both yourself and your spouse.

5. Find any papers relating to insurance-life, health, auto, and homeowner's, as well as pension and other retirement benefits.

6. List all debts you both owe, separately or jointly. Include auto loans, mortgage, credit card debt, and any other liabilities.

If you are a spouse who has not worked outside the home lately, be sure to open a separate bank account in your own name and apply for a credit card in your own name. This will help you to establish credit after the divorce.

How should we handle credit card accounts during a divorce?

It is important to immediately cancel all joint accounts once you know you are going to obtain a divorce. Creditors have the right to seek payment from either party on a joint credit card or other credit account, no matter which party actually incurred the bill. If you allow

your name to remain on joint accounts with your ex-spouse, you are also responsible for the bills.

Your divorce agreement may specify which one of you pays the bills. As far as the creditor is concerned, however, both you and your spouse remain responsible if the joint accounts remain open. The creditor will try to collect the bill from whoever it thinks may be able to pay, and at the same time report the late payments to the credit bureaus under both names. Your credit history could be damaged because of the cosigner's irresponsibility.

Some credit contracts require that you immediately pay the outstanding balance in full if you close an account. If so, try to get the creditor to have the balance transferred to separate accounts.

What do I do if my current or former spouse's poor credit affects me?

If your spouse's poor credit hurts your credit record, you may be able to separate yourself from your spouse's information on your credit report. The Equal Credit Opportunity Act requires a creditor to take into account any information showing that the credit history being considered does not reflect your own.

If for instance, you can show that accounts you shared with your spouse were opened by him or her before your marriage and that he or she paid the bills, you may be able to convince the creditor that the harmful information relates to your spouse's credit record, not yours. In practice, it is difficult to prove that the credit history under consideration doesn't reflect your own, and you may have to be persistent.

What happens to my credit history after a divorce?

If a woman divorces and changes her name on an account, lenders may review her application or credit file to see whether her qualifications alone meet their credit standards. They may ask her to reapply, but generally the account remains open.

Maintaining credit in your own name avoids this inconvenience. It can also make it easier to preserve your own, separate, credit history. Furthermore, should you need credit in an emergency, it will be available.

Do not use only your husband's name, for example, Mrs. John Wilson for credit purposes.

Check your credit report if you haven't done so recently. Make sure the accounts you share are being reported in your name as well as your spouse's. If not, and you want to use your spouse's credit history to build your own, write to the creditor and request the account be reported in both names. If there is any inaccurate or incomplete information in your file write to the credit bureau and ask them to correct it. The credit bureau must confirm the data within a reasonable time period, and let you know when they have corrected the mistake.

If you have been sharing your husband's accounts, building a credit history in your name should be fairly easy. Contact a major credit bureau and request a copy of your file, then contact the issuers of the cards you share with your husband and ask them to report the accounts in your name as well.

What are the legal issues that must be faced in most divorces?

The best way to plan for the legal issues that must be faced in a divorce such as child custody, division of property, and alimony or support payments, is to come to an agreement with your spouse. If you can do this, the time and money you will have to expend in coming

up with a legal solution -- either one worked out between the two attorneys or one worked out by a court -- will be drastically reduced.

Here are some general tips for handling the legal aspects of a divorce:

- Get your own attorney if there are significant issues dealing with assets, child custody, or alimony.
- There are several ways to find a good matrimonial attorney including referrals from other professionals, referrals from trusted friends, or lists obtained from the [American Academy of Matrimonial Lawyers](#).
- Make sure the divorce decree or agreement covers all types of insurance coverage-life, health, and auto.
- Be sure to change the beneficiaries on life insurance policies, IRA accounts, 401(k) plans, other retirement accounts, and pension plans.
- Don't forget to update your will.

Those who have trouble arriving at an equitable agreement, but do not require the services of an attorney, might consider the use of a divorce mediator. This type of professional advertises in the section of the classifieds titled "Divorce Assistance", or "Lawyer Alternatives."

How does property get divided in a divorce?

The laws governing the division of property between ex-spouses vary from state to state. You should also be aware that matrimonial judges have a great deal of latitude in applying those laws as well.

Here is a list of items you should be sure to take care of, regardless of whether you are represented by an attorney:

1. Gain an understanding of how your state's laws on property division work.
2. If you owned property separately during the marriage, be sure you have the papers to prove that it's been kept separate.

3. Be ready to document any non-financial contributions to the marriage, e.g., your support of a spouse while he or she attended school or your non-financial contributions to his or her financial success.
4. If you need alimony or child support, be ready to document your need for it.

If you have not worked outside the home during the marriage consider having the divorce decree provide for money for you to be trained or educated.

What are the tax implications of divorce?

After divorce each individual will file their own tax return. However, there are several areas where transactions between former spouses can result in tax consequences. The most common areas are:

Child Support

Child support is not deductible by the payer and is not taxable to the recipient. A payment is considered to be child support if it is specifically designated as such in a divorce or separation agreement or if it is reduced by the occurrence of a contingency related to the child (such as attaining a certain age).

Alimony

Alimony is a payment made pursuant to a divorce decree other than child support or designated as something in the instrument as other than alimony. Similar treatment is accorded separate maintenance payments made pursuant to a separation agreement. In order to qualify, payments must also cease upon the death of the recipient and must not be front-loaded.

Starting in 2019, alimony as well as separate maintenance payments were repealed by the Tax Cuts and Jobs Act of 2017 and are no longer deductible by the payer spouse.

For tax year 2018 and those years preceding it, alimony *is* deductible by the payer and is taxable to the recipient.

Property Settlements

Property settlements are not taxable events when pursuant to divorce or separation. Transfers of assets between spouses in this event do not result in taxable income, deductions, gains or losses. The cost basis of the property carries over to the recipient spouse. Be careful in a divorce, your spouse may give you an equal share of property based upon fair market value, but with the lower basis. This can result in a higher taxable gain upon a sale of the asset.

What happens when retirement plans or IRAs are divided up in a divorce?

Generally, when these plans are split up there is no taxable event if pursuant to a qualified domestic relations order or other court order in the case of an IRA. This is true, however, only if the assets remain in a retirement account or IRA. Once funds are distributed they will be taxed to the recipient. At the time of division, the payer does not receive a deduction and the recipient does not have taxable income.

Can I deduct the cost of getting a divorce?

Generally, no; however, fees paid specifically for income or estate tax advice pursuant to a divorce may be deductible. Also, fees made to determine the amount of alimony or to collect alimony can be deducted. These deductions would be miscellaneous itemized deductions subject to the two percent limitation.

For tax years 2018 through 2025, miscellaneous itemized deductions (Form 1040, Schedule A) have been eliminated due to tax reform (Tax Cuts and Jobs Act of 2017).

Who is entitled to deduct the dependency exemption of a child after divorce?

Generally, the custodial parent is entitled to the deduction. However, this is often negotiated in the divorce settlement. If the parents agree in writing, the non-custodial parent can take the deduction.

For tax years 2018 through 2025, the personal exemption as well as dependent exemptions is eliminated due to tax reform (Tax Cuts and Jobs Act of 2017). However, the dependent exemption deduction for noncustodial parents still exists for 2018-2025 (that is, it was not repealed) but is reduced to \$0.

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- Can I file a joint return in the year my spouse dies?
- Must I pay taxes on the proceeds of a life insurance policy payable to me?
- If I receive distributions from a retirement plan or an IRA of the deceased, must I pay income taxes on the distribution?
- How will my spouse's assets be distributed if he/she died without a will?

What papers will I need if a family member dies?

Here is a list of the papers that you will probably need:

- Certified copies of the death certificate (at least 10). You can purchase them through the funeral director or directly from the County Health Department.
- Copies of all insurance policies, which may be located in the deceased's safe deposit box or among his or her personal belongings.
- Social Security numbers of the deceased, the spouse, and any dependent children.
- Military discharge papers, if the deceased was a veteran. If you cannot find a copy, write to The Department of Defense, National Personnel Record Center, 1 Archives Drive, St. Louis, MO 63138.
- Marriage Certificate, if the spouse of the deceased will be applying for benefits. Copies of marriage certificates are available at the Office of the County Clerk where the marriage license was issued.
- Birth Certificates of dependent children. Copies are available at either the State or the County Public Health offices where the child was born.
- The Will, which may be with the deceased's lawyer.
- A complete list of all property including real estate, stocks, bonds, savings accounts and personal property of the deceased.

If the death is not unexpected, you should try to gather these papers in advance (other than the death certificate, of course) to lessen the strain at the time of death.

What steps should I take regarding the deceased's assets?

You should check with your financial advisor as to how you should handle the following assets of the deceased, but some general rules of thumb include:

- **Insurance Policies.** You may need to change the beneficiaries of policies held by the spouse of the deceased. Moreover, if the spouse does not have any dependents, it might be wise to reduce the amount of life insurance coverage. Auto and home insurance may also need revision.
 - **Automobiles.** Check with your State DMV to see if the title of the deceased's car needs to be changed.
 - **Bank Accounts.** If the deceased and his or her spouse had a joint bank account, title will automatically pass to the surviving spouse. Notify the bank to change its records to reflect this change in ownership. If a bank account was held only in the name of the deceased, that asset will have to go through probate (unless it's a trust account).
 - **Stocks and Bonds.** To change title to stocks or bonds, check with the deceased's broker.
 - **Safe Deposit Box.** In most states, you will need a court order to open a safe deposit box that is rented only the name of the deceased.
 - In most states, only the will and other materials pertaining to the death can be removed before the will has been probated.
- Credit Cards.** Any credit cards exclusively in the name of the deceased should be canceled (and any payments due should be paid by the estate). As to credit cards in the names of both the deceased and his or her spouse, the surviving spouse should notify the credit card companies of the death and ask that the card should be reissued in the survivor's name only.

You should update your own will if it provides that any of your property will pass to the deceased upon your death.

How can I avoid overpaying for the funeral of a family member?

The best way to avoid overpaying for a funeral is to plan ahead. Further, it pays to know about the "Funeral Rule," the regulation of the Federal Trade Commission (FTC) concerning funeral industry practices. [The Funeral Rule](#) provides that:

- The funeral provider must give you, over the phone, price and other readily available information that reasonably answers your questions.

- The funeral provider must give you (1) a general price list, (2) a disclosure of your important legal rights, and (3) information about embalming, caskets for cremation, and required purchases.
- The funeral provider must disclose in writing any service fees for paying for goods or services on your behalf (such as flowers, obituary notices, pallbearers, and clergy honoraria). While some funeral providers charge you only their cost for these items, others add a service fee to their cost. The funeral provider must also inform you of any refunds, discounts, or rebates from the supplier of any such item.
- The funeral provider must disclose in writing your right to buy, and make available to you, an unfinished wood box (a type of casket) or an alternative container for direct cremation.
- You do not have to purchase unwanted goods or services or pay any fees as a condition to obtain those products and services you do want. In addition to the fee for the services of the funeral director and staff, you need to pay only for those goods and services selected by you or required by state law.
- The funeral provider must give you an itemized statement of the total cost of the funeral goods and services you selected; this statement must disclose any legal, cemetery, or crematory requirements for you to purchase any specific funeral goods or services.
- The funeral provider is prohibited from telling you that a particular funeral item or service can indefinitely preserve the body of the deceased in the grave or claiming that funeral goods such as caskets or vaults will keep out water, dirt, or other gravesite substances.

If you have a problem concerning funeral matters, and cannot resolve it with the funeral director, contact your federal, state, or local consumer protection agencies, the Funeral Consumers Alliance, or the International Conference of Funeral Examining Boards.

What Social Security benefits are surviving family members entitled to?

The deceased is considered covered by Social Security if he or she paid into Social Security for at least 40 quarters. Check with your local Social Security office or call 800-772-1213 to determine if the deceased was eligible. If the deceased was eligible, there are two types of possible benefits.

One-Time Death Benefit

Social Security pays a death benefit toward burial expenses. Complete the necessary form at your local Social Security office, or ask the funeral director to complete the application and apply the payment directly to the funeral bill. This payment is made only to eligible spouses or to a child entitled to survivors benefits.

Survivors Benefits for a Spouse or Children.

If the spouse is age 60 or older, he or she will be eligible for benefits. The amount of the benefit received before age 65 will be less than the benefit due at age 65 or over. Disabled widows age 50 or older are eligible for benefits. The spouse of the deceased who is under the age of 60 but who cares for dependent children under the age of 16 or cares for disabled children may be eligible for benefits. The children of the deceased who are under the age of 18 or are disabled may also be entitled to benefits.

What is probate?

Probate is the legal process of paying the deceased's debts and distributing the estate to the rightful heirs. This process usually entails:

- The appointment of an individual by the court to act as "personal representative" or "executor" of the estate. This person is often named in the will. If there is no will, the court appoints a personal representative, usually the spouse.
- Proving that the will is valid.
- Informing creditors, heirs, and beneficiaries that the will is probated.
- Disposing of the estate by the personal representative in accordance with the will or state law.

The spouse or personal representative named in the will must file a petition with the court after the death. There is a fee for the probate process.

Depending on the size and complexity of the probable assets, probating a will may require legal assistance.

Assets that are jointly owned by the deceased and someone else are not subject to probate. Proceeds from a life insurance policy or Individual Retirement Account (IRA) that are paid directly to a beneficiary are also not subject to probate.

What taxes are due upon the death of a family member?

Here is a summary of the various taxes that may have to be paid on the death of a family member:

Federal Estate Tax. Amounts passing to a surviving spouse, and amounts passing to charity, are generally exempt from estate tax. Estate tax is generally only due on estates which, after reduction for what goes to spouse and charity, exceed the unified credit exemption equivalent, which in 2022 is \$12,060,000 (\$11,700,000 in 2021).

Contact the IRS for a Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return*, if you need to file an estate tax return. A federal estate tax return must be filed and taxes paid within nine months of the date of death absent extension.

State Estate and Inheritance Taxes. State laws vary. Many states impose estate taxes, which may apply in addition to federal estate taxes, or may apply even when federal estate taxes don't. Some states impose inheritance taxes on individuals who receive inheritances, rather than on the estate.

Income Taxes. The federal and state income taxes of the deceased are due for the year of death. The taxes are due on the normal filing date of the following year unless an extension is requested. The spouse of the deceased may file a joint federal income tax return for the

year of death. A spouse with a dependent child may file jointly for two additional years. IRS Publication 559, *Survivors, Executors, and Administrators*, may be helpful.

Can I refuse to accept property bequeathed to me by a family member so as to cut taxes?

The disclaimer or generation-skipping transfer tax is a way for you to refuse all or part of property that would otherwise pass to you, via will, intestacy laws, or by operation of law. An effective disclaimer passes the property to the next beneficiary in line.

The fact that the property is treated as if it had passed directly from the decedent to the next-in-line beneficiary may save thousands of dollars in estate taxes. The provision for a disclaimer in a will and the wise use of a disclaimer allows intra-family asset shifting and income shifting for maximal use of the estate tax marital deduction, the unified credit, and the lower income tax brackets.

Disclaimers can also be used to provide for financial contingencies. For example, you can disclaim an interest if someone else is in need of the funds.

Can I file a joint return for the year my spouse dies?

Yes, the surviving spouse can elect to file a joint return provided they did not remarry prior to the end of the tax year.

Must I pay taxes on the proceeds of a life insurance policy payable to me?

Generally, no. Proceeds of life insurance policies are not taxable income unless the recipient paid for the right to receive them. For example, if you purchased a policy as an investment.

If I receive distributions from a retirement plan or an IRA of the deceased, must I pay income taxes on the distribution?

Generally, yes. This is known as income in respect of a decedent. Since the deceased has not paid income tax on the distribution, the tax is owed by the recipient. If the value of the account was included in the decedent's estate tax return, you may be entitled to a deduction for a portion of the estate taxes paid.

How will my spouse's assets be distributed if he/she died without a will?

Assets held jointly with right of survivorship will transfer by law to the joint holder. Insurance policies or retirement accounts with a designated beneficiary will go to that beneficiary.

Assets owned solely by the decedent will transfer according to state law. This is known as intestacy. These laws vary by state, but generally, give preference to the spouse and children.

Other Situations: Frequently Asked Questions

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How Can I Resolve A Consumer Complaint?

First, go to the seller of the item. Second, contact the relevant consumer agency. Finally, if neither of these results in satisfaction, you can file a lawsuit or use arbitration.

Contacting the Seller

Before you take your complaint to the store or other entity that sold you the service or product:

1. Gather any evidence you may need, such as the receipt, a canceled check, photographs showing the problem, a warranty, a contract, or a bill of sale.
2. Figure out what your goal is. Do you want the product replaced? Do you want your money back? Do you merely want an apology?
3. Call the store or service provider and ask to make an appointment with the manager, customer service representative, or another appropriate person. Meet face to face with that individual and explain as succinctly as possible the nature of the problem and what you want to be done about it. If you talk on the phone, follow up with a letter, and make notes of the dates of your calls and to whom you spoke.
If the product is covered by a warranty, it's usually better to follow up with the manufacturer instead of the merchant.
4. If this doesn't produce results, take your problem to a higher authority. This might be a supervisor or a corporate president. You should put your complaint in writing at this point if you haven't already done so. Your letter should include your name, address, phone numbers, and account number (if relevant). If a product is involved, include the date and place of purchase, and the model and serial number. Briefly, state the problem with the product or service, and write about what you have done so far to resolve it. Finally, tell the letter recipient what you want done, and give him or her a deadline. Include copies of relevant documents (not originals), and keep a copy of your letter. Keep copies of anything you receive from the company.

Contacting an Agency

If you still haven't achieved the result you wanted, look in the phone book for a consumer complaint agency, such as the state, county, or city consumer protection office, or the Better Business Bureau.

Or, you might want to go the trade association route. Some industry trade associations offer help in mediating disputes concerning their members.

If your complaint involves a bank, you might wish to contact the appropriate state banking regulator. Similarly, you might want to contact the state insurance regulator if an insurer is involved, the securities regulator for a securities problem, or the public utility commission for utility-related problems.

If the problem involves a state-licensed trade (e.g., a general contractor or a plumber), call the state licensing department.

If you bought a "lemon" used car, investigate your state's lemon laws by contacting your state consumer protection agency.

If the problem involves mail order or mail fraud, contact your area postal inspector, who can be found in the U.S. government section of the phone book.

There may also be a local television news program hotline for resolving consumer complaints.

Call the agency first to find out what procedures it wants you to follow.

Filing a Lawsuit

When all else fails, you might want to file a court case--either a small claims case, if the amount of money involved is small enough (generally, under \$5,000)--or a regular lawsuit. More often than not, simply contacting an attorney and having him or her write a letter to the

merchant or service provider indicating that you intend to file a lawsuit will get you the result you are seeking. If a small claims case is involved, you generally won't need to hire an attorney, but if the case doesn't qualify for small claims, you'll probably need to hire an attorney.

How Can I Reduce My Bank Fees?

There are many ways to reduce your bank fees. Here are a few of them:

- Are there fees associated with your checking account? If so, then call your bank and find out what you can do to get free checking and free ATM usage. For example, you might need to keep a minimum balance in the account and use only ATMs at your own bank. You may want to ditch banks altogether and join a credit union, which typically charges less for banking services.
- Don't keep too much money in a low-interest savings account. Find out how much money you'll need access to in an emergency (generally three to six months' worth of expenses) and keep only that amount in your savings account. The rest of your funds should be invested in the stocks and mutual funds or in the high-interest rate CD (Certificate of Deposit) you can find (check out Bankrate.com).
- If you still write checks don't order them through your bank. Many check printers charge less for check orders than the printers used by banks.

How Can I Save On My Insurance Costs?

Here are some ways to save on insurance of all types:

- Shop around for a life insurance policy. It pays to check prices on life insurance policies periodically because rates change frequently. Also, if you've quit smoking, you may be entitled to better rates after a few years.
- Take a look at your life insurance needs to see whether you even need a policy or are paying for too much coverage.
- Insure your home and **autos** with the same insurer. You may be able to get a break by doing this.
- Shop for **auto insurance** to try to get a lower rate.

- Install smoke detectors, burglar alarms, and sprinkler systems to save on **homeowner's insurance**. Don't forget to ask your insurance agent about other cost saving measures.
- Get rid of private mortgage insurance. Once you have enough equity in the home, ask your lender to cancel your private mortgage insurance.

How Can I Cut My Utility Costs?

Here are some thoughts to keep in mind when trying to cut utility costs:

- Your utility company or state may have a program that subsidizes making your home more energy-efficient. If not, there's plenty of information out there about making your home more energy efficient such as caulking your windows and making sure your insulation's "R" factor is correct for your location.
- Install CFLs (compact fluorescent lights) or LEDs (light-emitting diodes) instead of incandescent bulbs to save energy and money.
- Keep the thermostat at the lowest temperature comfortable in winter and the highest temperature comfortable in summer.

How Can I Reduce The Cost Of My Phone Bill?

Today's cost-cutting competition among land-line and mobile phone service providers offers a few opportunities for savings on your phone bills, such as:

- Shopping around to make sure you're paying as little as possible for long-distance and mobile phone charges. Take the time to investigate which service provider will save you the most and switch if it is a better deal.
- Consider getting rid of your land-line phone altogether.
- Use e-mail or Skype to correspond with relatives and friends.

How Can I Reduce The Cost Of My Mortgage?

Consider the following options to help you reduce the cost of your mortgage:

- **Paying down your mortgage.** For most people, paying down a mortgage is an effective way of saving and increasing net worth. Decide that you will pay \$100 or \$200 per month-or more-in mortgage principal, and do it faithfully.
- **Refinancing your mortgage.** You may be able to save money by refinancing your mortgage., but you need to go through the calculations and see whether the reduction in your monthly payments would be worth the costs involved with refinancing. The general rule is that a reduction of at least two points will make it worthwhile to refinance if you intend to stay in the house for at least five years.