



Computing in a Cloud

Keeping up with the latest computer technology and software is one of the greatest challenges of running a small business. Within a short period of time, computer hardware and software programs can evolve significantly, causing a business to lose its competitive edge if it fails to upgrade. Small companies that may not have their own information technology departments must pay IT consultants to handle upgrades, install software, and manage and repair hardware. They may also have to pay costly licensing fees for software that employees only use occasionally.

This is where cloud computing could help. The “cloud” refers to diagrams that depict the complex connections of the Internet, which allow users to draw upon a widely dispersed infrastructure of servers and service providers. Cloud computing essentially eliminates the need for an in-house network, allowing users to “rent” software, as well as hardware and platform services, from remote vendors. These vendors store and manage data for companies for a fee that can be adjusted according to the actual usage and needs of the client. Businesses can participate in cloud computing with one or more personal computers and a fast Internet connection.

There are downsides to installing software onto an in-house network due to the need for eventual program upgrades at additional cost, as well as difficulty accessing programs with computers not connected to the network. This can cause problems if employees are working from their home computers, mobile devices, or notebooks. In many cases, renting software from an outside provider is less expensive than buying an off-the-shelf software program, especially when it must be licensed for a larger number of users.

An example of cloud computing services is Google Apps, which can be operated through any web browser. While some basic services, such as Gmail, are free, access to more advanced business tools can be purchased for a per-user fee. Certain tools allow users to draft word documents or create spreadsheets, and share them with other users without having to resort to bulky e-mail attachments. Google stores all the files created using Google Apps centrally, making it easier to collaborate and manage documents, regardless of user location. All users also benefit from automatic, remote software upgrades.

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Family Matters: Lending Funds to Your Children

Have you ever considered lending money to help your child with a down payment on a new home, to bankroll a business venture, or for some other major expense? Many adult children seek financial assistance from their parents if they encounter difficulty securing a bank loan due to lack of a credit history or collateral. Often, parents want to help their children succeed in life and are willing to give them a financial boost. In general, parent-to-child business loans tend to go smoothly. However, if a loan is not paid back as agreed upon by both parties, it could affect family relations. So, here are four points to consider before lending funds to your child:

1. Document the loan. If you expect the money to be repaid, consider treating the loan as seriously as a bank would by requiring the proper documentation. You must be able to demonstrate to the Internal Revenue Service (IRS) that you made a *bona fide* loan in order to deduct it as a bad debt. For tax purposes, request the following:

- A note and *written* loan agreement
- Collateral or other form of security
- A repayment schedule and repayment records
- A plan indicating that the loan will be repaid as scheduled
- Proof that a business was solvent when the loan was made, if applicable.

Proper documentation may also help you avoid other complications. For instance, if your child were to divorce, a written loan agreement identifying who is responsible for repayment, and on what terms, could prevent a former

spouse from refusing responsibility for the debt or claiming that the money was a gift. It could also keep an ex-spouse from obtaining—through the division of marital assets—a controlling interest in a company you funded.

2. Know the rules. The IRS allows you to deduct bad debts only *after* you have tried to collect them by legal means, if necessary. So if you want to write off the loan, you must be prepared to take legal action to collect it.

If legal action is appropriate in your situation and you are still unable to collect the loan, you may write it off as a **short-term capital loss** by subtracting the outstanding loan balance from your total short- and long-term capital gain for the year. If the loss exceeds your total capital gain, you may deduct it in \$3,000 increments each year until it is entirely written off.

3. Treat the bad debt as a gift. Instead of a lawsuit, you may have the option of treating the bad debt as a gift. In 2012, the IRS allows each taxpayer to give up to \$13,000

per person per year free of gift and estate taxes. Thus, both parents together could offset an uncollectable debt with a combined gift of up to \$26,000 per year with no tax consequences. (Any amount exceeding this limit may be subject to gift and estate taxes.)

4. Use common sense. Lending money to a child may have certain tax consequences for you, so it is important to consider the odds of a successful follow-through on your child's part. Think twice before lending money for a risky venture unless you are willing to part with it as a gift with possible tax consequences, if needed.

Helping a child to succeed in life can be an exciting and rewarding experience for a parent. But, be aware of potential tax traps and legal pitfalls *before* opening your checkbook, and remember to seek professional advice beforehand.

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not support the promotion and marketing of any particular product. You should seek advice based on your particular circumstances from an independent tax advisor. ■

Select Trustees with Care

If you are thinking about establishing a **trust**, you need to select a **trustee**—someone who is charged with administering the trust according to your wishes. Perhaps you are considering naming a family member, or maybe you are wondering whether it would be wiser to designate your attorney or another trusted professional. Choosing a trustee is an important decision that requires great care and an analysis of your unique circumstances.

A trustee's role is to comply with the terms of the trust and fulfill its objectives. In selecting a trustee, you may want to weigh many personal, family, asset management, and business concerns. For instance, an important consideration is the *size* and *complexity* of the trust. Corporate and professional trustees often possess the accounting, tax planning, and money management experience necessary to administer large, complicated trusts. On the other hand, a small trust may not warrant professional management.

Duration is another significant concern. A trustee's responsibilities often span one or more generations. **Corporate fiduciaries** may have the advantage of perpetual life (although

the individuals administering the trust may change over the years). This longevity may also allow them to more easily fulfill the recordkeeping and reporting requirements of the supervising court, as well as Federal and state governments. If you have decided to appoint only *individual* trustees, you may want to consider designating **co-trustees** or **successor trustees** to address longevity concerns.

Advantages of Professional Trustees

Corporate trustees have other advantages, as well. For instance, they may be more impartial when considering beneficiaries' needs than family members, who may face conflicts of interest. Also, corporate and professional trustees are held to a higher standard of professional conduct than non-professionals. Of course, professional service comes with a price. Many grantors of small trusts choose non-professional trustees to avoid high corporate fees.

Benefits of Family Members

When a personal touch is needed, family members or other

non-professionals may offer special advantages as trustees. They generally have the sensitivity and flexibility required to support the special needs of a beneficiary. A family member or business associate may also be the preferred choice if you are leaving a business in trust, as corporate trustees generally do not run businesses.

Best of Both Worlds

Often, a *combination* of professional and non-professional trustees may work best. Corporate or professional trustees provide trust management expertise, while family members or other non-professionals respond to the changing needs and circumstances of beneficiaries.

Trusts are complex, varying by type and purpose, and are most likely to fulfill their objectives when responsibly administered. A trustee who is uninformed could mismanage a trust or take actions that could have serious tax consequences. A qualified legal professional can help you make the most appropriate choice for your particular situation. ■

Making the Most of Annual Gifts

You've probably worked a lifetime to build an adequate nest egg, live in a comfortable home, and accumulate an array of other assets. You may also realize that your finances could create unfavorable estate tax consequences. Perhaps you already have the compulsory legal documents, such as wills, trusts, etc. in place, and know that giving away assets may help reduce the size of your taxable estate. But, even though

many people make occasional gifts to their children or other family members, few actually take advantage of the benefits offered through a *regular gifting program*.

Gifting Made Simple

Current tax laws allow you to give away \$13,000 (\$26,000 if married) in 2012 to as many people as you wish *without* incurring any gift taxes. This \$13,000 **annual gift tax**

exclusion can be an effective means for gradually passing wealth to future generations. In fact, systematically making such a gift can create a rather sizable long-term result.

Let's look at this scenario: Suppose 60-year-old Bruce starts a gifting program for his newborn grandson, Ryan. Each year, Bruce makes a gift of \$13,000. After 25 years, Ryan will have accumulated \$325,000, assuming 0% growth. In addition, suppose

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Cloud computing allows businesses to gain access to the server capacity they require through services such as the Amazon Elastic Compute Cloud (EC2). This service permits customers to rent space on servers to run their own applications. EC2 is “elastic” because users can purchase only the processes and data storage capacity they need, for as long as they need it, without having to invest in expensive new servers or additional disk space.

Although cloud computing can help companies provide convenient access and cut costs, certain issues

may arise, especially involving security and data backup. While remote providers are generally responsible for managing and securing client data, businesses have much less control over a decentralized network than their own in-house network. On the other hand, they benefit from the economies of scale offered by remote providers, which manage security updates and upgrades efficiently. Also, unlike most small businesses, cloud computing vendors monitor their systems around the clock to ensure the highest level of security.

The possibility of breakdowns and data breaches exists; however, most cloud computing vendors offer enhanced password security and encryption features for users concerned about privacy and security. Companies can also create their own backup copies of sensitive or important data, rather than relying solely on their cloud provider.

Cloud computing has become a viable option to help small businesses keep up with the latest technology and software to maintain their competitive edge in a challenging economic climate. ■

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Melanie, Bruce’s wife, age 60, also chooses to make a \$13,000 gift to Ryan, bringing the total annual gift to \$26,000. In this case, Ryan will have accumulated \$650,000 in 25 years (assuming 0% growth). In this win-win situation, the couple helps their grandson accrue a nest egg, while, at the same time, lowering the value of their estate. This strategy may help Melanie and Bruce minimize their estate tax liabilities.

One Step Beyond

Using the annual gift tax exclusion to fund a **life insurance** policy creates the potential to turn gifts into a substantial death benefit. Once

again, suppose Bruce (the donor) sets up an **irrevocable life insurance trust (ILIT)** for the benefit of Ryan. The ILIT then purchases life insurance on Bruce. Upon Bruce’s death, the life insurance death benefit proceeds are payable to the ILIT. Since the policy is owned by and payable to the ILIT, there are no **transfer tax** consequences to Bruce’s estate.

Life insurance may provide an ideal mechanism for leveraging annual gifts. In the short term, it offers an immediate death benefit that generally outweighs the total premium outlay (gifts). While over the long term, life insurance offers a unique opportunity to potentially leverage

annual gifts into a significant benefit for selected beneficiaries. This can be achieved by taking advantage of the tax-deferred buildup of policy values, which in some cases may indirectly increase the life insurance policy’s death benefit over time.

The use of a regular gifting program may be advantageous to individuals seeking to gradually reduce the size of their estates. In addition, it affords these individuals the opportunity to pass wealth to children, family members, and others with reduced tax consequences. For specific guidance, consult your qualified tax and legal professionals. ■

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