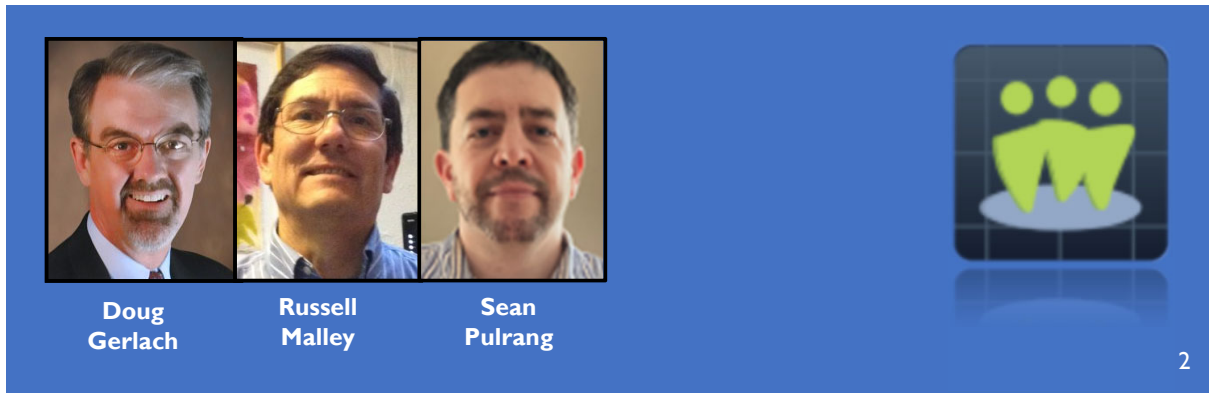


Handling the Death of an Investment Club Partner

MARCH 2023

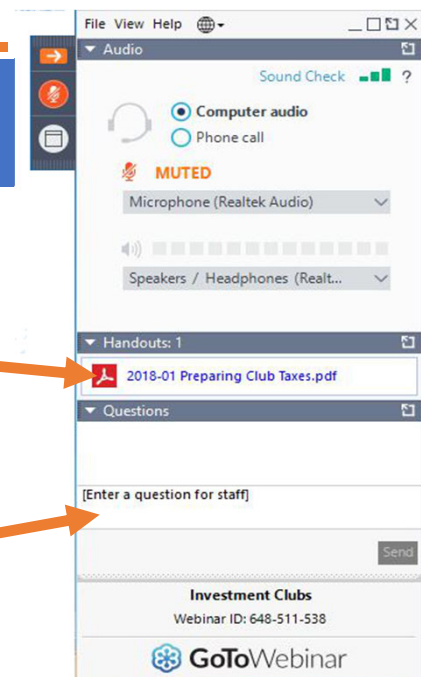


A blue rectangular panel featuring three headshots of men on the left. Below each headshot is a name: Doug Gerlach, Russell Malley, and Sean Pulrang. To the right of the headshots is a green icon of three stylized figures. A small number '2' is in the bottom right corner.

Handout & Questions

Handout in PDF format is available in Handouts tab.

Type questions in Questions box.



A screenshot of the GoToWebinar interface. The 'Audio' tab is active, showing 'Computer audio' selected and 'MUTED' status. Below the audio settings, the 'Handouts' tab is expanded, showing a PDF file named '2018-01 Preparing Club Taxes.pdf'. The 'Questions' tab is also visible, with a text input field containing '[Enter a question for staff]' and a 'Send' button. The bottom of the interface shows 'Investment Clubs' and 'Webinar ID: 648-511-538'.

HANDLING DEATH OF A PARTNER IN AN INVESTMENT CLUB

BEST PRACTICES FOR ACCOUNTING

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DISCLAIMER



- ICLUBcentral does not provide legal or financial advice.
- However, we do have decades of experience with investment clubs & investing partnerships, & we can offer suggestions & pitfalls to avoid.
- If you have questions or wish to deviate from our suggestions, we recommend seeking competent legal advice before taking action.

5

Don't Overcomplicate Things



- Most of deceased partner withdrawal is same as any other member withdrawal.
- Bottom line: if you exactly follow partnership agreement and ICLUBcentral recommendations for member withdrawals, you can process withdrawal for deceased member without any trouble.

6

Understanding Member Withdrawals



- To review all aspects of member withdrawals, see May 2022 ICLUBcentral webinar on member withdrawals.
 - Available on ICLUBcentral channel on YouTube, or directly at <https://youtu.be/vUnQeFsbDyE>.



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Always Follow Your Partnership Agreement



- Club's Partnership Agreement (or bylaws) *should* outline how death of partner is handled.
- In all cases, club should **follow its operating documents & not deviate from them whatsoever.**
- If partnership agreement or bylaws do not specify how death of partner is to be handled, **club should modify them ASAP.**

8

Model Partnership Agreement



- ***Death or Incapacity of a Partner.*** *In the event of the death or incapacity of a Partner, receipt of notice shall be treated as a notice of full withdrawal.*
- Therefore, withdrawal is simply **processed as full withdrawal.**

9

A Few Definitions



- “Incapacity.” Can be interpreted in many ways, giving clubs broad latitude.
 - In case of deteriorating health or mental condition, club may choose to allow member’s account to be “inactive” for some time even though member is not able to fulfill responsibilities to club.
- “Receipt of notice of death.” Most clubs interpret this as meaning that when they first hear about member’s passing from family member, posting on social media, obituary—not as some official document submitted by family member or estate.
- “Full withdrawal.” Operating documents should have clear definition regarding how full member withdrawals are to be made.

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Full Withdrawals per Model Agreement



- Notice is formally accepted at club meeting.
 - If notice received between meetings, then formal notice is deemed received at next meeting.
- Valuation date at meeting where notice is accepted determines value of withdrawing member’s interest in club.
 - About a month will pass before valuing member’s interest in club for final withdrawal.

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Transferring Stock



- Transferring shares of highly-appreciated stock to pay final withdrawal has benefits for club & no real downsides for member receiving shares.
 - Defers taxes on gains for continuing members.
- However, may be more difficult when dealing with withdrawing a deceased member.
 - Deceased member's brokerage firm may refuse to receive stock transfers into the account of a deceased client.
 - May be impossible to transfer shares to account at another brokerage firm.
 - Executor may be able to open brokerage account in name of estate & thus enable transfers.
 - Delays in transferring shares may be deterrent to using this method.

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Paying Off Withdrawal in Cash



- Despite advantages to transferring highly-appreciated shares, if club has little in appreciated shares or delays or complications make share transfer too difficult, then paying off cash may be preferred.
- Even if club has little cash on hand, chances are good that review of club's portfolio will identify shares that are underperformers & should be sold to improve overall portfolio return & quality.
 - Aim to sell shares that are depreciated (thus capturing capital losses) or have minimal capital gains.

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Writing & Delivering Payment



- Always make check payable to member or “Estate of <Deceased Member>”.
 - Do NOT write check in name of any other family member or person, even if executor requests.
 - If you do, make sure to have written documentation including proof that you know that executor is correct, all requests are in writing, etc.
- If there are no instructions from executor or family, send check to last known address of deceased member.
 - Certified Mail with return receipt or Registered Mail is recommended.

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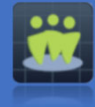
Withdrawals Across Calendar Year



- Problems can arise if “effective date” of withdrawal & payout spans calendar year.
 - This can show member is still partner in new year.
- Contact ICLUBcentral customer support for assistance in adjusting withdrawal transaction.

15

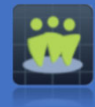
What About Trusts?



- Problems associated with stock transfers to pay a deceased member may be reduced if members hold their club interest in name of a living trust.
- However, this creates additional complications.
- Any trust as member removes possibility of opting out of IRS Centralized Audit Regime (CAR) for partnerships.
 - ICLUBcentral recommends all clubs opt-out of CAR even if it means not allowing trusts as partners.
 - Every club needs to decide if benefits of trusts as club members outweigh added work not to be subject to CAR.

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What About Beneficiaries?



- ICLUBcentral discourages use of beneficiaries in investment clubs.
- Enforceability of such statements varies by state.
 - Even if enforceable, may not take precedence over will, trust agreement or other last request documents in your state.
- If club members insist, seek competent legal advice before implementing such statements.
 - Club does not want to get in middle of family disagreement after death of partner.
 - Large financial institutions have staffs of lawyers to defend their handling of beneficiary statements; battling with heirs may be costly for remaining members.

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Emergency Contact



- Make sure to maintain list of emergency contact information for all members.
- In case of member passing, club knows who to contact to coordinate withdrawal transactions & sending of payment.
- Good practice to update contact list regularly.
- Can keep track in myICLUB Member Profiles.

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Transfer Club Interest to Another Member



- It is possible for member leave part/all of club interest to another club member.
 - Partnership interest is just considered property, so it is possible.
 - Basis is stepped up at transfer.
 - Contact ICLUBcentral for instructions on recording in myICLUB.com.

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Transfer Club Interest to Non-Member



- Is possible for member to leave part/all of club interest to non-member.
 - However, club cannot be forced to accept new individual as partner.
 - Club may follow its operating documents & decide whether or not to accept new member.
 - Contact ICLUBcentral for instructions on recording in myICLUB.com.
 - If not, process withdrawal in normal fashion.

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Always Include Withdrawal Report



- Every partnership withdrawal must be accompanied by Member Withdrawal Distribution Report.
- This includes required information used in preparing individual's tax return.
 - Information on Withdrawal Report is NOT all included in Schedule K-1 at year-end.
 - Good practice to notify heir/executor that K-1 will also be provided at year-end, so make sure to have correct mailing information.

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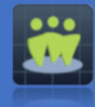
Schedule K-1



- Executor must receive deceased member's schedule K-1 from club's Federal 1065 tax return.
 - If club files state taxes, the K-1 equivalent of state tax return should also be provided.
- Copy of Member Withdrawal Distribution report should also be included.
- Send copies to last known address of deceased member or to address provided by executor.

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If Check Isn't (or Isn't Able to Be) Cashed



- Some executors may request check be payable to "Estate of..." & not to member.
 - Get request in writing.
 - If check already written to member, make sure it is returned to club.
 - Write replacement check & deliver.
- If check comes back as undeliverable or is not cashed, & there is no contact from the executor or family, contact your state's authority responsible for abandoned property.

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Handling Basis Step-Up for Inherited Property



- Under IRS rules, tax basis of inherited property is “stepped up” to current value at date property is inherited.
 - Thus capital gains taxes can be avoided by heirs.
- Withdrawal Distribution Report details includes member’s basis in club interest withdrawn as well as current value.
 - This is all member/executor needs.
 - It is not club’s responsibility to provide documentation of any basis step-up.

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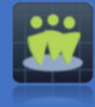
Sending Flowers



- By all means, club may send flowers to member’s service.
 - Record these as “non-investment expenses” in club’s books.
- Club might also make charitable gift in honor of deceased member.
 - Record this as “charitable contribution” in club’s books.

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Final Thoughts



- Handling deceased member's investment club withdrawal is not merely a financial transaction.
- Be timely in handling withdrawal payout.
- Always be respectful to member's family, heirs, executors.
- Don't neglect the emotional aspects of member's passing on remaining members.

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QUESTIONS?

USE QUESTIONS BOX IN WEBINAR APPLET

The screenshot shows a portion of a webinar applet interface. At the top, there is a 'File View Help' menu. Below it is an 'Audio' section with a 'Sound Check' indicator. The audio settings are set to 'Computer audio' and 'Phone call'. A 'MUTED' indicator is visible next to the microphone settings. Below the audio settings is a 'Handouts: 1' section with a PDF file named '2018-01 Preparing Club Taxes.pdf'. Underneath is a 'Questions' section with a text input field containing the placeholder text '[Enter a question for staff]' and a 'Send' button. At the bottom of the applet, it displays 'Investment Clubs' and 'Webinar ID: 648-511-538', along with the 'GoToWebinar' logo.

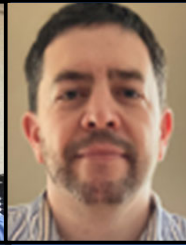
Thank You!



**Doug
Gerlach**



**Russell
Malley**



**Sean
Pulrang**

