



Tuesday, July 7, 2020

Speakers:



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Agenda:

- Opening Comments
- COVID Tax Talk
- Tax & Estate Planning for 2020 and Beyond
- Market Update
- Q&A Forum
- Closing Comments

COVID TAX TALK

COVID Tax Talk

Coronavirus-related legislation

- Coronavirus Preparedness & Response Supplemental Appropriations Act – March 6, 2020
- Families First Coronavirus Relief Act – March 18, 2020
- IRS Notice 2020-18 – March 18, 2020
- Coronavirus Aid, Relief & Economic Security Act (CARES Act) – March 27, 2020
- Paycheck Protection Program & Health Care Enhancement Act (“COVID 3.5”) – April 24, 2020
- Reminder: SECURE Act passed in late December 2019 (non-COVID related)

COVID Tax Talk

Stimulus Package #4 – Where do we stand?

- House passed \$3 trillion bill (HEROES Act) in May
- COVID spikes across the country, unemployment decreasing
- Senate in recess between July 3rd and July 17th, returning on Monday, July 20th
 - In session for 3 work weeks, until Friday, August 7th
 - Expanded unemployment benefits expire on July 31st!
 - August recess from August 10th to Monday, Sept. 7th (Labor Day)
- How best to stimulate the economy?
 - Democrats: Second round of stimulus payments to individuals, more Federal funding to states, extend unemployment benefits
 - Republicans: “Back to work” bonuses, incentives to work, payroll tax cut

COVID Tax Talk

Tax Deadline Extension until 7/15/2020

- Tax filings
- Tax payments for 2019 returns, Q1 & Q2 estimates
- “Time sensitive acts” under IRS Notice 2020-23
- IRA contributions, HSA & Archer MSA contributions

IRS Operations – “Mission critical functions only”

- Paper-filed returns are being processed on a limited basis
- Tax notices being mailed out (with old information)
- Backlog of mail received by IRS is 10 million+ pieces
- Phone lines are starting to open back up

COVID Tax Talk

RMD Waivers from IRAs & Qualified Plans

- Required minimum distributions waived for 2020
- Qualified Charitable Distributions (QCDs) still allowed
 - Up to \$100,000 per taxpayer, per year
 - Ineligible for rollover if you change your mind!
- What if I already took my RMD (or any distribution)?
 - Can complete a rollover up until August 31, 2020
 - IRS Notice 2020-51 recently released
 - “Once-per-12-months” rule does not apply
 - Inherited IRA owners are now eligible

COVID Tax Talk

“Coronavirus-Related Distribution” Relief

- Distributions up to \$100,000 can be taken from IRAs and qualified plans
- Must be impacted by COVID-19
 - Quarantined, furloughed, school closures, financial impact
- Benefits include:
 - 10% early withdrawal penalty waived (if under 59 ½)
 - Can spread taxable income over 3 years
 - Funds can be repaid over 3 years
 - Amended tax returns would be required to claim tax refund

COVID Tax Talk

Charitable Giving Relief

- New \$300 “above the line” cash charitable deduction
 - Only for taxpayers who do not itemize deductions
 - Cannot be made to donor-advised fund or “supporting organization”; must be a public charity
- 60% AGI limit suspended for 2020
 - Up to 100% of income can be given away (in cash)
 - Excess deduction carries forward up to 5 years
 - Cannot be made to donor-advised fund or “supporting organization”; must be a public charity

COVID Tax Talk

Tax Notice Frenzy

- IRS sending out “balance due” notices
 - Deadline to pay is 7/15/2020
- Missouri Dept. of Revenue sending out erroneous notices
 - MO DOR crediting Q1 & Q2 2020 estimates to tax year 2019, then sending refund for tax year 2019
 - Taxpayers should receive letter from MO DOR asking to return check by 7/15/2020
- If you receive a notice from the IRS or state(s), don't panic!
 - Have someone review it before you take action



COVID Tax Talk

Business Incentives

- Paycheck Protection Program (PPP) Loans
 - Forgivable loans available for businesses (with less than 500 employees) to help with cash flow and payroll costs
 - Bill passed/signed on July 4th to extend PPP loan applications through August 8th (previous deadline was June 30, 2020)
 - \$134 billion in funding not lent to borrowers
- Several employer payroll tax credits available
 - Paid sick leave & FMLA leave are now required for businesses with less than 500 employees

TAX & ESTATE PLANNING FOR 2020 & BEYOND



Tax & Estate Planning for 2020+

SECURE Act

- Passed in late December 2019; took effect 1/1/2020
- Dramatically changed the way we plan for IRAs
 - “Stretch IRA” eliminated for deaths after 1/1/2020
 - New 10-year payout for deaths after 1/1/2020 for most non-spouse beneficiaries
 - Flexibility of payments, no annual “RMD” requirement
 - “Look-through” trusts no longer effective with 10-year payout
 - Spousal rollovers still permitted
 - Investment horizon is now shorter

Tax & Estate Planning for 2020+

SECURE Act

- KEY TAKEAWAYS:
 - Review IRA beneficiaries to ensure the best scenario
 - Consider leaving IRA funds to charity
 - Consider spreading tax impact over more beneficiaries or those with lower tax brackets
 - Consider (taxable) Roth conversion
 - 10-year payout still required, but no tax impact
 - Funds can grow tax-free over time

Tax & Estate Planning for 2020+

SECURE Act

- Age limit repealed for making IRA contributions
 - Before: Could not make contributions past age 70 ½
 - Now: Can make contributions at any age, as long as there is earned income (wages & self-employment)
 - Can use spouse's earned income to qualify
 - New anti-abuse rules for coordinating contributions with QCDs!
 - Cannot "recycle" post-70 ½ contributions into QCDs

Tax & Estate Planning for 2020+

SECURE Act

- RMD Age Increased
 - Before: RMDs started at age 70 ½
 - Now: RMDs start at age 72
 - QCDs can still be made at age 70 ½ in a tax-free manner
 - Starting at age 72, QCDs can satisfy RMD requirements
- KEY TAKEAWAY:
 - For charitably-inclined taxpayers: Use the QCD vs. RMD age gap (age 70 ½ vs age 72) to draw down IRA balance in a tax-free manner
 - Up to \$100,000 per taxpayer, per year

Tax & Estate Planning for 2020+

CARES Act

- RMD Waiver for 2020
 - Consider taking RMD for 2020 to take into account lower tax rates as compared to future years
 - Not taking RMD in 2020 could increase future RMD amounts if market value rises
 - Schedule a tax planning conversation with your team of advisors to weigh your options

Tax & Estate Planning for 2020+

Charitable Giving Considerations

- 60% AGI limit suspended for 2020
 - With no AGI limit on cash contributions, consider making large charitable gifts in 2020
- Rather than donating depreciated securities “in kind”, considering harvesting capital losses and donating cash

Tax & Estate Planning for 2020+

Estate Planning Considerations

- Current estate/gift tax lifetime exemption is \$11.58 million per taxpayer (for non-spouse transfers)
 - Set to sunset to pre-TCJA \$5 million level in 2026
- “Use it or lose it” – The exemption amount at your death dictates how much wealth can transfer tax-free to heirs
 - Unless you engage in lifetime transfers that “lock in” the current exemption
- Leverage ultra-low interest rates and large estate exemption to set up & execute (or review) your estate plan

Tax & Estate Planning for 2020+

Estate Planning Considerations

- Example: “Spousal Lifetime Access Trusts” (SLAT)
 - Allows lifetime “access” to trust assets for the benefit of your spouse, children, grandchildren, etc.
 - Grantor can indirectly benefit from trust assets
 - Because the transfer of assets is irrevocable, the assets are removed from your taxable estate
 - Upon transfer, all future appreciation occurs outside the taxable estate
 - Downside: “Step up” in basis is lost upon transfer

Tax & Estate Planning for 2020+

Estate Planning Considerations

- More Examples:
 - Grantor-Retained Annuity Trusts (GRAT)
 - Set up Family LLC and gift non-voting units up to annual exclusion amount
 - Gift permanent life insurance policies to ILIT
 - Sell assets to Intentionally Defective Grantor Trust (IDGT) to freeze value of assets and remove from estate

Tax & Estate Planning for 2020+

Estate Planning Considerations

- Annual Gifting Plans
 - Can gift (during your lifetime) up to \$15,000 per beneficiary/per grantor without dipping into \$11.58 million exemption
 - Example: Mom and Dad can both give \$15,000 to favorite child annually, for a total of \$30,000 per year
 - Annual gifting at/below \$15,000 limit does not require gift tax return filings

Tax & Estate Planning for 2020+

Other Food for Thought

- Possible Tax Rate Increase
 - With 2020 being an election year & national debt levels increasing, the need for a future tax rate increase is likely
 - Consider triggering taxable events in order to tax advantage of currently low tax rates
 - Roth conversions
 - Draw down large IRA balances
- Ultra-low Interest Rates
 - Consider refinancing debt, especially mortgages, to take advantage of very favorable interest rates

MARKET UPDATE

Economic Overview

- US stock markets started the year on an optimistic note with US stock markets until the advent of the Covid-19 Pandemic changed things, perhaps forever
- The market declined until the low on March 23rd, resulting in the quickest downturn in history as the S&P 500 declined 33% (22 trading days)
- The Federal Reserve took swift action; cutting short-term interest rates to near zero and restarting a broad QE program
- Adding to the relief efforts, Congress passed the \$2.2 trillion CARES Act to stabilize the economy during the shutdown
- Nonetheless, the domestic economic data is the worst since the 1930s with over 30 million Americans having lost their jobs and GDP for Q2 2020 is estimated to contract at an over 30% annualized rate
- Improvements in unemployment are encouraging signs the recovery is coming
- The global economy is in the midst of a recession due to the sharp drop in aggregate demand and output as a result of the lockdown



2020 Market Outlook

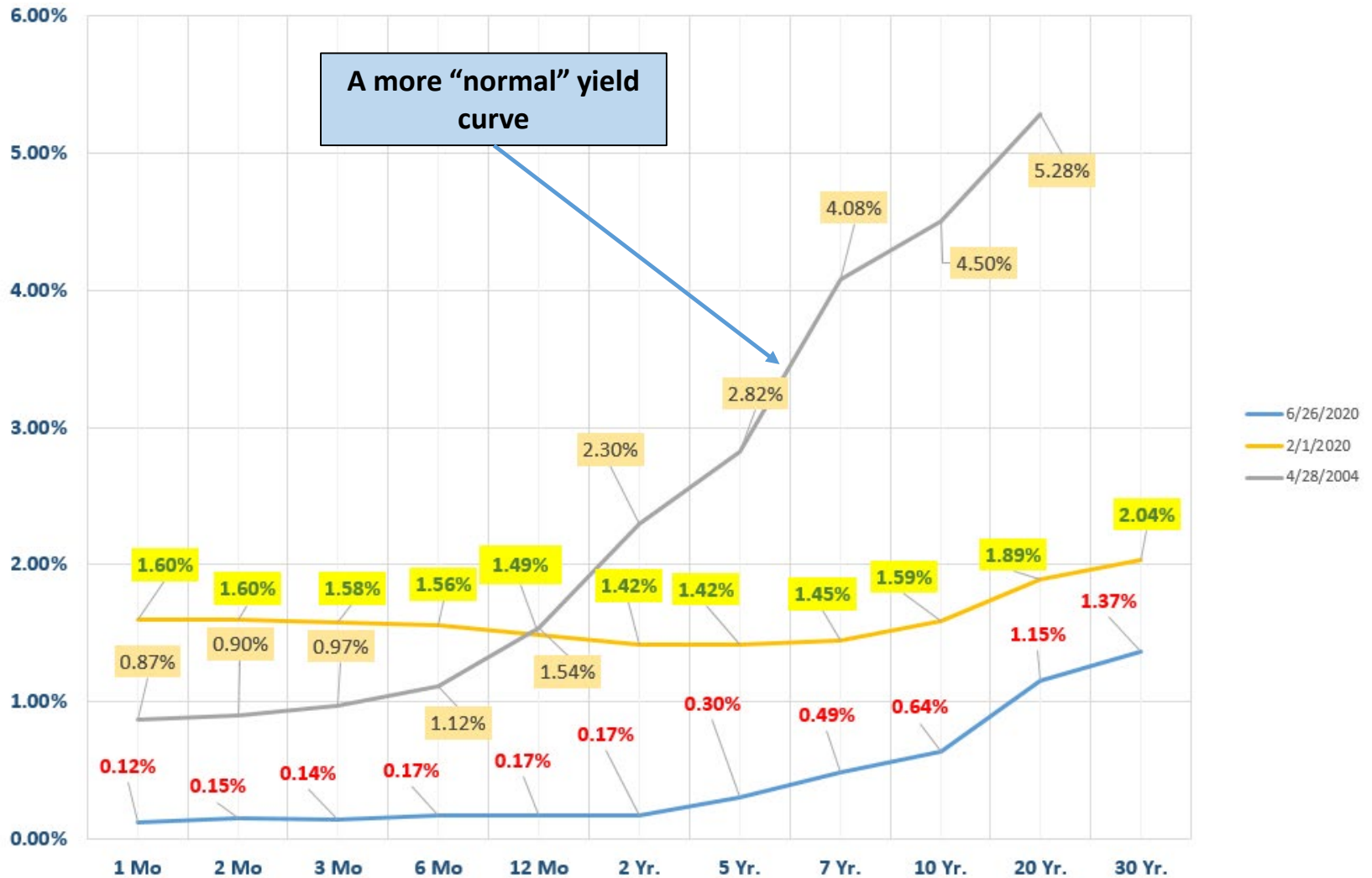
- The market outlook is clearly defined as uncertain
- The market movement off of the March 23rd bottom while comparatively rapid still reflects a great deal of uncertainty and resulting volatility
- The massive infusion of liquidity aided the market rise but the underlying signs of an economy trying to recover are masked by the infusion of liquidity
- The second quarter was a dramatic rebound from the market bottom in March
- Where we will be in 3-6 months is predicated on how quickly and orderly the US and the world can begin to return to “normal”
- Corporate earnings are indicating that we still have a “rough row to hoe”
- We see a bumpy, uneven reopening here in the U.S with uncertainty on the strength and timing of the recovery
- We predict it will take until mid-2021 for economic activity, corporate earnings and employment to recover to 2019 levels
- Our base case is for an uneven recovery as countries around the globe reopen their economies

2020 Investment Outlook

Investment Positioning

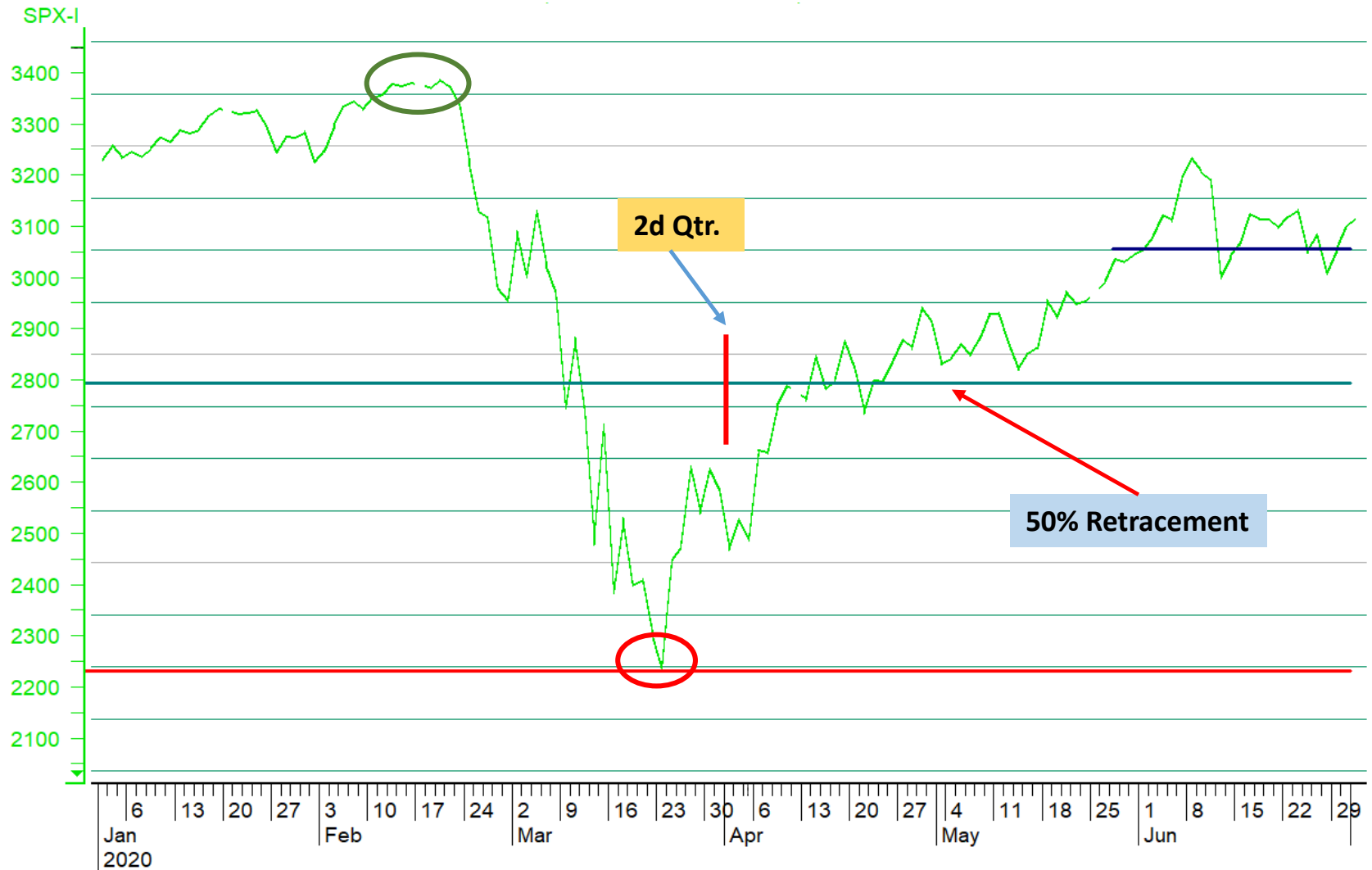
- Last year, we saw growth slowing in a late cycle environment and began to lower our equity allocation after being overweight for nearly 10 years. We are continuing this asset allocation.
- As we navigate this uncertain environment, we remain optimistic that the U.S. equity markets will recover but we remain fairly defensive and neutral on domestic fixed income; with a focus on quality, capital preservation, and diversification.
- We have positioned portfolios more defensively emphasizing quality, portfolio resiliency and liquidity
 - We are modestly underweight to equities, with a preference for high quality U.S. large-cap companies with strong cash flows and dividends
 - We have an overweight to investment grade bonds, cash and gold. We have cash and short-term investments as a buffer to protect capital and to have dry powder to take advantage of opportunities when they arise.

USTN Yield Curve (6/30/2020)



S&P 500 Index

January 1 to July 1, 2020



Q&A FORUM
AND
CLOSING COMMENTS