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EPIC CAPITAL

A Good Life Well Lived. INSIGHTS

Enhanced 2020 RMD Waivers

Inside this Issue

FEATURES

- Enhanced 2020 RMD Waivers
- The Gift Tax
- The A B C D of Medicare
- Explaining the Basis of Inherited Real Estate

Investors may be eligible to "undo" certain withdrawals before September.

In March, the "Coronavirus Aid, Relief, and Economic Security" ("CARES") Act became law. It was designed to help Americans impacted by the COVID-19 pandemic.[1]

The new law offered investors a financial break. It gave people the option to skip required minimum distributions (RMDs) from traditional Individual Retirement Accounts (IRAs) and 401(k)-style plans in 2020. (Original owners of Roth IRAs never have to take RMDs from those accounts.)[2,3]

Keep in mind that this article is for informational purposes only. It's not a replacement for real-life advice, so make sure to consult your tax legal and accounting professionals before modifying your RMD strategy.

Some investors were left wanting. People who took some or all of their 2020 RMDs in January were initially prohibited from putting that money back – but lawmakers helped amend that rule.

The Internal Revenue Service (I.R.S.) recently expanded the terms of 2020 RMD relief. Now, 2020 RMDs taken from January 1 to June 30 may be fully or partly restored without penalty, and the deadline for doing so has been extended to August 31.[3]

The fine print about this is important, especially if you take your RMD in increments or have an inherited IRA in your financial picture.

Do you usually spread your IRA RMD out across the year? Then you may have a chance to restore the RMD amount to your IRA in the same way. In 2020, the I.R.S. is characterizing each redeposit of RMD assets as a tax-free rollover. Normally, you can only make this type of rollover once every 12 months, but the I.R.S. is lifting that restriction for 2020.[3]

Do you have an inherited IRA? In June, the I.R.S. issued guidance stating that the 2020 RMD waivers also apply to inherited traditional and Roth IRAs. RMDs from inherited IRAs taken in the first half of 2020 may be

fully or partly redeposited with no penalties by August 31. The 10-year rule to empty an inherited IRA is still in place, but if an IRA owner passes away in 2020, then the 10-year drawdown of that IRA begins in 2021.[2,3]

A surviving spouse of the IRA owner, disabled or chronically ill individuals, individuals who are not more than 10 years younger than the IRA owner, and child of the IRA owner who has not reached the age of majority may have other minimum distribution requirements.

Incidentally, RMDs are still required this year from traditional pension plans (sometimes called defined benefit plans). The CARES Act does not permit such RMDs to be redeposited this year.[3]

A rule about early distributions from retirement accounts has also been relaxed. In 2020, account owners younger than 59½ have a chance to take a distribution of up to $100,000 from their retirement plan or IRA without the 10% early withdrawal penalty that normally applies. The withdrawn amount is still taxable, though.[4]

The CARES Act is a 335-page law, and some of its provisions and passages remain open to interpretation. A financial professional may be able to provide you with up-to-date information about the new rules.

The Gift Tax

Changes Not all gifts are taxable

I'd like for you to meet my friend, Hugh. He's a retired film stuntman who, after a long career, is enjoying his retirement. Some of what he's enjoying about his retirement is sharing part of his accumulated wealth with his family, specifically his wife and two sons. Like many Americans, Hugh likes to make sure that, when he's sharing that wealth, he isn't giving the I.R.S. any overtime.

Hugh knows about the gift tax and knows how to make those gifts without running headlong into a taxable situation. This is Hugh's responsibility because the I.R.S. puts the onus on the giver. If the gift is a taxable event and Hugh doesn't pay up, then the responsibility falls to the beneficiaries after he passes in the form of estate taxes. These rules are in place so that Hugh can't simply, say, give his entire fortune to his sons before he dies.

Exemptions for family and friends. It would be different for Hugh's wife, Barbara. The unlimited marital deduction means that gifts that Hugh gives to Barbara (or vice versa) never incur the gift tax. There's one exception, though. Maybe Barbara is a non-U.S. citizen. If so, there's a limit to what Hugh can offer her, up to $155,000 per year. (This is the limit for 2019; it's pegged to inflation.) [1,2]

The gift limit for other people is $15,000 and it applies to both cash and noncash gifts. So, if Hugh buys his older son Tony a $15,000 motorcycle, it's the same as writing a $15,000 check to his younger son, Jerry, or gifting $15,000 in stock. Spouses have their own separate gift limit, as well; Barbara could also write Jerry a $15,000 check from the account she shares with Hugh.[1,2]

Education and healthcare. The gift tax doesn't apply to funds for education or healthcare. So, if Tony breaks his leg riding that motorcycle, Hugh can write a check to the hospital. If Jerry goes back to college to become a chiropodist, Hugh can write a tuition check to the college. This only works if Hugh is writing the check to the institution directly; if he's writing the check to the beneficiaries (i.e. Tony and Jerry), he might incur the gift tax.[1,2]

"The gift limit for other people is $15,000 and spouses have their own separate gift limit."

The Lifetime Gift Tax Exemption. What if Hugh were to go over the limit? The lifetime gift tax exemption would go into effect, and the rest would be reported as part of the lifetime exemption via Form 709 come next April. Unlike the annual exemption, the lifetime exemption is cumulative for Hugh. Currently, that lifetime exemption is $11.4 million.[1,2]

Being a stuntman and an active extreme sportsman, Hugh is concerned about his estate strategy. Were he to borrow Tony's motorcycle and attempt to jump the Snake River Canyon, what would happen if he didn't make it across? If that unfortunate event occurred in 2019, and he gave $9 million over his lifetime, and his estate and all of that giving totaled more than $2.4 million, the estate may owe a federal tax and possibly a state estate tax. Barbara would have her own $11.4 million lifetime exemption, however, and since she is the spouse, estate taxes may not apply.[1,2]

Any wise stuntman will tell you, "leave this to the experts." Talk to a trusted financial professional about your own plans for giving.

The A, B, C, & D of Medicare

The important question: Are you prepared?

Whether your 65th birthday is on the horizon or decades away, understanding the different parts of Medicare is critical, as this government-sponsored program may play a role in your future health care decisions.

Parts A & B: Original Medicare. There are two components. In general, Part A covers inpatient hospital care, skilled nursing facility costs, hospice, lab tests, surgery, and some home health care services. One thing to keep

in mind is that, while very few beneficiaries must pay Part A premiums out of pocket, annually adjusted standard deductibles still apply.[1,2]

Many pre-retirees are frequently warned that Medicare will only cover a maximum of 100 days of nursing home care (provided certain conditions are met). Part A is the one with these provisions. Under the current Part A rules, you would pay $0 for days 1-20 of care in a skilled nursing facility (SNF). During days 21-100, a $176 daily coinsurance payment may be required of you.[1,2]

Knowing the limitations of Part A, some people look for other choices when it comes to managing the costs of extended care.

Part B covers physicians' fees, outpatient hospital care, certain home health services, durable medical equipment, and other offerings not covered by Medicare Part A.[3]

Part B does come with some costs, however, which are adjusted annually. The premiums vary, according to the Medicare recipient's income level, but the standard monthly premium amount is $144.60 for 2020, and the current yearly deductible is $198.[1]

"Many pre-retirees are frequently warned that Medicare will only cover a maximum of 100 days of nursing home care.

Part C: Medicare Advantage plans. Sometimes called "Medicare Part C," Medicare Advantage (MA) plans are often viewed as an all-in-one alternative to Original Medicare. MA plans are offered by private companies approved by the federal government. Although these plans come with standardized minimum coverage, the amount of additional protection offered can differ drastically from one person to the next. This is due to unique provider networks, premiums, copays, coinsurance, and out-of-pocket spending limits. In other words, comparing prices and services offered from different vendors may be the best way to find a Medicare Advantage plan that works for you.[3]

Part D: Prescription drug plans. While Medicare Advantage plans often offer prescription drug coverage, insurers also sell federally standardized Medicare Part D plans as a standalone product to those with Medicare Part A and/or Part B. Every Part D plan has its own list (i.e., a "formulary") of covered medications. Visit Medicare.gov to explore the formulary of approved drugs for your Part D plan as well as their prices, organized by tier.

In fact, Medicare.gov is a great place to start all your research. Once there, you'll find answers to your most common questions and more information on the different Medicare plans offered in your area.[4]

Explaining the Basis of Inherited Real Estate

What is cost basis? Stepped-up cost basis? How does the home sale tax exclusion work?

At some point in our lives, we may inherit a home or another form of real property. In such instances, we need to understand some of the jargon involving inherited real estate. What does "cost basis" mean? What is a "step-up?" What is the home sale tax exclusion, and what kind of tax break does it offer?

Very few parents discuss these matters with their children before they pass away. Some prior knowledge of these terms may make things less confusing at a highly stressful time.

Cost basis is fairly easy to explain. It is the original purchase price of real estate plus certain expenses and fees incurred by the buyer, many of them detailed at closing. The purchase price is always the starting point for determining the cost basis; that is true whether the purchase is financed or all-cash. Title insurance costs, settlement fees, and property taxes owed by the seller that the buyer ends up paying can all become part of the cost basis.[1]

*"Cost Basis is the **original purchase price plus expenses and fees** incurred by the buyer.."*

At the buyer's death, the cost basis of the property is "stepped up" to its current fair market value. This step-up can cut into the profits of inheritors should they elect to sell. On the other hand, it can also reduce any income tax liability stemming from the transaction.[2]

Here is an illustration of stepped-up basis. Twenty years ago, Jane Smyth bought a home for $255,000. At purchase, the cost basis of the property was $260,000. Jane dies and her daughter Blair inherits the home. Its present fair market value is $459,000. That is Blair's stepped-up basis. So if Blair sells the home and gets $470,000 for it, her complete taxable profit on the sale will be $11,000, not $210,000. If she sells the home for less than $459,000, she will take a loss; the loss will not be tax-deductible, as you cannot deduct a loss resulting from the sale of a personal residence.[1]

The step-up can reflect more than just simple property appreciation through the years. In fact, many factors can adjust it over time, including negative ones. Basis can be adjusted upward by the costs of home improvements and home additions (and even related tax credits received by the homeowner), rebuilding costs following a disaster, legal fees linked to property ownership, and expenses of linking utility lines to a home. Basis can be adjusted downward by property and casualty insurance payouts, allowable depreciation that comes from renting out part of a home or using part of a residence as a place of business, and any other developments that amount to a return of cost for the property owner.[1]

The Internal Revenue Code states that a step-up applies for real property "acquired by bequest, devise, or inheritance, or by the decedent's estate from the decedent." In plain English, that means the new owner of the property is eligible for the step-up whether the deceased property owner had a will or not.[2]

In a community property state, receipt of the step-up becomes a bit more complicated. If a married couple buys real estate in Arizona, California, Idaho, Louisiana, New Mexico, Nevada, Texas, Washington, or Wisconsin, each spouse is automatically considered to have a 50% ownership interest in said real property. (Alaska offers spouses the option of a community property agreement.) If a child or other party inherits that 50% ownership interest, that inheritor is usually entitled to a step-up. If at least half of the real estate in question is included in the decedent's gross estate, the surviving spouse is also eligible for a step-up on his or her 50% ownership interest. Alternately, the person inheriting the ownership interest may choose to value the property six months after the date of the previous owner's death (or the date of disposition of the property, if disposition occurred first).[2,3]

In recent years, there has been talk in Washington of curtailing the step-up. So far, such notions have not advanced toward legislation.[4]

What if a parent gifts real property to a child? The parent's tax basis becomes the child's tax basis. If the parent has owned that property for decades and the child cannot take advantage of the federal home sale tax exclusion, the capital gains tax could be enormous if the child sells the property.[2]

Who qualifies for the home sale tax exclusion? If individuals or married couples want to sell an inherited home, they can qualify for this big federal tax break once they have used that home as their primary residence for two years out of the five years preceding the sale. Upon qualifying, a single taxpayer may exclude as much as $250,000 of gain from the sale, with $500,000 being the limit for married homeowners filing jointly. If the home's cost basis receives a step-up, the gain from the sale may be small, but this is still a nice tax perk to have.[5]

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