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EPIC CAPITAL

A Good Life Well Lived™ INSIGHTS

Election 2020: Economic Issues in the Crosshairs

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Here's what you need to know.

It should come as no surprise to hear the economy is the top issue for voters in the 2020 election. Nearly 8 in ten voters say that the economy will be very important to them when they cast their votes.[1]

But when voters say "economy," what do they really mean? Is it a catch-all phrase for personal finances? Not exactly. Here's a breakdown of voters' top three economic concerns and what each candidate has said about the issues.[1]

Questions about trade. Questions remain about what will develop between the U.S. and China following the election. President Trump has worked to revise the U.S.-China trade agreements, while former Vice President Joe Biden has indicated he may move towards a more open trade policy.[2]

Corporate taxes. President Trump passed The Tax Cuts and Jobs Act (TCJA) of 2017, a far-reaching piece of legislation that included lowered corporate taxes. Former Vice President Biden has said that he wants to repeal parts of the TCJA and has indicated he would be in favor of raising corporate taxes back up to 28% from 21%.[2]

Climate change. Former Vice President Biden has put forward his "Clean Energy Revolution," which is designed to transition the country to 100% clean energy and net-zero emissions. President Trump is likely to continue to pursue adjusting environmental regulations and supporting fossil fuel.[2]

What issues will be pursued? Expect that Congress will have a big part to play regarding pursued policies. If you have any concerns about any of the positions taken by the candidates, please give us a call. We'd welcome the chance to hear your perspective.

Taxable Events in Retirement Accounts

What triggers a tax liability for an individual or a trust?

When you distribute, sell, or receive assets from a retirement account, taxes usually follow. It is true for individuals; it is true for trusts. These decisions represent taxable events.

Many retirement accounts are tax-deferred, but not tax-exempt. So, at some point, a "day of reckoning" arrives for these accounts, and taxes are due. The tax liability may differ greatly, depending on account ownership.

Trust income is now taxed much more than individual income. This is a result of the Tax Cuts and Jobs Act of 2017.[1]

As an example, in 2019, a trust could earn up to $2,650 in taxable income without federal taxes on its qualified dividends or capital gains. That threshold was almost 15 times higher ($39,375) for an individual. Factor in a $12,200 standard deduction in that same year, and an individual could potentially have up to $51,575 in qualified dividends to manage their federal income tax liability.[1]

Additionally, an individual has to have net investment income or modified adjusted gross income in excess of $200,000 per year to face the 3.8% net investment income tax (NIIT). Compare that with a trust: the threshold is just $12,750.[2]

Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

Say an investment in your retirement account is sold for a capital gain. If it has been held in your account for less than a year, that capital gain is short term; short-term capital gains are usually taxed at the same rate as earned income. If those shares have been in your account for more than a year, then long-term capital gains tax rates likely apply, which are either 0% or 15% for most individuals.[3]

"Each tax year, Form 1099 tells the story. 1099-DIV, 1099-INT, and 1099-R."

A trust also faces the possibility of capital gains tax in this situation whether it distributes the gain or it doesn't. Both trusts and individuals can use capital losses to offset capital gains.[1,4]

Suppose you receive dividends in a retirement account. In an ordinary brokerage account, qualified dividends are taxable annually whether the money is distributed, reinvested, or left in cash. The threshold for taxation of qualified dividends is much lower for a trust than for an individual. Reinvested dividends in an Individual Retirement Account (IRA) are not taxed.[1,5]

Regarding IRAs, it is important to note that distributions from traditional IRAs must generally begin once you reach age 72. The money distributed to you is taxed as ordinary income. When such distributions are taken before age 59½, they may be subject to a 10% federal income tax penalty, although the CARES Act allows some exceptions to the penalties for 2020. (You may continue to contribute to a Traditional IRA past age 70½ under the SECURE Act as long as you meet the earned-income requirement.)[6]

How are taxable events in retirement accounts reported, and when are taxes withheld? Each tax year, Form 1099s tell the story. The 1099-DIV tracks dividends, the 1099-INT displays interest income, and the 1099-R shows distributions out of pensions, IRAs, retirement plans, and insurance contracts.[7]

Now to withholding. Distributions from employee retirement plans have taxes withheld unless a trustee-to-trustee transfer occurs (i.e., the invested assets go seamlessly from one retirement plan to another, with the individual or trust never taking possession of them). The withholding rate in such instances is 20%. An IRA owner can choose not to withhold tax from an IRA distribution; otherwise, the withholding rate is 10%. There is no withholding at all, of course, on investment income from a taxable brokerage account or capital gains and losses.[8]

Keep in mind that this article is for informational purposes only and not a replacement for real-life advice. Also, tax rules are constantly changing, and there is no guarantee that the tax treatment of IRAs and other qualified retirement plans will remain the same in years ahead, for individual taxpayers or trusts.

How Much Do You Really Know About Extended Care?

Separating some eldercare facts from eldercare myths.

How much does eldercare cost, and how do you arrange it when it is needed? The average person might have difficulty answering those two questions, for the answers are not widely known. For clarification, here are some facts to dispel some myths.

True or false: *Medicare will pay for your mom or dad's nursing home care.*

FALSE. Medicare is not extended care insurance.[1] Medicare Part A will pay the bill for up to 20 days of skilled nursing facility (SNF) care, but after that, you or your parents may have to cover some costs out-of-pocket. After 100 days in a SNF, you will have to cover all costs out of pocket. The only way to "reset the clock" for Medicare coverage of these services is if the patient can somehow go without skilled nursing care for 30 or 60 days or if they require a hospital stay of three full days or longer.[1]

"The best time to consider extended care insurance is when you are healthy."

True or false: ***A semi-private room in a skilled nursing facility costs about $35,000 a year.***

FALSE. The median cost of a semi-private room is now $89,297. A private room in an assisted living facility has a median annual cost of $100,375 annually. A home health aide could run you up to $4385 per month for full-time care. Even if you just need someone to help mom or dad with activities of daily living (ADLs), such as eating, bathing, or getting dressed, the median hourly expense is not cheap: non-medical home aides run about $23 per hour, which at 10 hours a week, means nearly $12,000 a year.[2,3]

True or false***: Only around 40% of Americans aged 65 and older are expected to need extended care.***

FALSE. Someone turning 65 today has a 70% chance of needing extended care. That means that by 2030, it's estimated that around 24 million Americans will need extended care. This is double the current number already receiving care.[4,5]

True or false: ***The earlier you buy extended care insurance, the more manageable the premiums.***

TRUE. Younger policyholders may pay lower premiums.

The best time to consider extended care insurance is when you are healthy. While you may be paying a premium for a longer amount of time, the expense may pale in comparison to paying for unexpected medical costs out of pocket.[6]

True or false: ***Medicaid can pay nursing home costs.***

TRUE. The question is, do you really want that to happen? While Medicaid rules vary by state, in most instances, a person may only qualify for Medicaid if they have no more than $2,000 in "countable" assets ($3,000 for a couple). A homeowner can even be disqualified from Medicaid for having too much home equity. A primary residence, a primary motor vehicle, personal property, and household items, burial funds of less than $1,500, and tiny life insurance policies

Year-End Estate Strategies

What you need to know to get ready for the end of the year.

With one year ending and a new one on the cusp of starting, many people will consider their resolutions—not their estate strategy. But the end of the year is a great time to sit down and review your preparations, especially when you're spending more time with your loved ones; even more important if you have a complicated estate that may need to get managed after you're gone.

Call a family meeting. Many people don't let their family know their wishes or who is appointed to handle the estate. While two-thirds of Americans say that the pandemic has brought them closer to their family, only 28% of those 65 and older have started discussing their estate strategy with their families.[1,2]

You may be able to get ahead of any potential family issues down the line by discussing your wishes, what needs to be handled by your estate, and reviewing what you have in place. No one wants to think about their family members passing away, but an awkward conversation now may mitigate future problems.

Get organized. Ensure that your documents are up to date and remain aligned with your wishes. Two things to consider are a financial power of attorney and a power of attorney for your healthcare needs. Both can play a role should you become too ill to make decisions.[2,3]

Also, consider adding "Transfer on Death" or "Pay on Death" to ensure that your spouse or surviving relatives can have access to your accounts.[2,3]

Be flexible. Tax law changes adjust and change over time. For example, the SECURE Act, which went into effect at the end of 2019, did away with "stretch IRAs." The change forced some to consider a new approach to that portion of their estate. Your estate strategy should be flexible enough to adjust to whatever happens.[4]

As you talk about your estate with your family and set your preparations in motion, the end of the year is a great time to connect with your financial professional, tax attorney, and estate attorney.

If you would like to further discuss any of the topics written about in this newsletter, or inquire about any of our other services, please feel free to contact us

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