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EPIC CAPITAL

A Good Life Well Lived™ INSIGHTS

Five Highlights of the Stimulus Bill

What the latest round of funding may mean for you.

After a bit of political posturing in December, the $900 billion Consolidated Appropriations Act of 2021 (2021 CAA) was signed into law by President Trump as the COVID-19 pandemic continues to impact employers and employees.

Here's a quick recap of five key highlights:

Stimulus Checks: The new law authorized a second round of $600 checks for people with income that meets the criteria. The checks start to phase out for individuals who earned at least $75,000 in 2019 and $150,000 for joint filers.[1]

Unemployment Benefits: The law provides up to $300 per week in enhanced benefits through March 2021. The benefits extend to self-employed individuals and gig workers.[2]

Student Loan Repayment: The 2021 CAA extends the provision that allows employers to repay up to $5,250 annually towards an employee's student loan payments. The payments are tax-free to the employee.[3]

Small Businesses: The 50% limit on the deduction for business meals has been lifted. Business meal expenses after December 31, 2020, and before January 1, 2023, may now be fully deductible. Please consult your tax, legal, or accounting professional for more specific information regarding this provision.[4]

PPP Loans: The new law contains $284 billion in relief for a second round of Payment Protection Program loan funding. Businesses with 300 or fewer employees may be eligible for a second loan. "Second-draw" loans are available through March 31, 2021.[5]

As 2021 gets underway, expect some additional guidance from regulators on 2021 CAA. Our office will keep an eye out for updates and pass information as it becomes available.

Inside this Issue

FEATURES

Tax Efficiency in Retirement

What role should taxes play in your investment decisions?

Will you pay higher taxes in retirement? Do you have a 401(k) or a traditional IRA? If so, you will receive income from both after age 72. However, if you have saved and invested much of your life, you may also end up retiring at a higher marginal tax rate than your current one. In fact, the income alone resulting from a Required Minimum Distribution could push you into a higher tax bracket.

While retirees with lower incomes may rely on Social Security as their prime income source, they may pay comparatively less income tax than you in retirement; some, or even all, of their Social Security benefits may not be counted as taxable income.[1]

What's a pre-tax investment? Traditional IRAs and 401(k)s are examples of pre-tax investments. You can put off paying taxes on the contributions you make to these accounts until you start to take distributions. When you take distributions from these accounts, you may owe taxes on the withdrawal. Pre-tax investments are also called tax-deferred investments, as the invested assets can benefit from tax-deferred growth.[2]

"Smart moves can help you manage your taxable income and taxable estate."

Under the SECURE Act, once you reach age 72, you must begin taking required minimum distributions from a traditional IRA, 401(k), and other defined contribution plans in most circumstances. Withdrawals are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. Contributions to a traditional IRA may be fully or partially deductible, depending on your adjusted gross income.

What's an after-tax investment? A Roth IRA is a classic example. When you put money into a Roth IRA, the contribution is made with after-tax dollars. As a trade-off, you may not owe taxes on the withdrawals from that Roth IRA (so long as you have had your Roth IRA at least five years and you are at least 59½ years old). With distributions from a Roth IRA, your total taxable retirement income is not as high as it would be otherwise.[2]

Should you have both a traditional IRA and a Roth IRA? It may seem redundant, but it could help you manage your tax situation. Keep in mind that tax-free and penalty-free withdrawal from a Roth IRA also can be taken under certain other circumstances, such as the owner's death.

Smart moves can help you manage your taxable income and taxable estate. If you're making a charitable gift, giving appreciated securities that you have held for at least a year is one choice to consider. In addition to a potential tax deduction for the fair market value of the asset in the year of the donation, the charity may be able to sell the stock later without triggering capital gains.[3]

Remember, however, that this article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax, legal, and accounting professionals before modifying your charitable giving strategy.

The annual gift tax exclusion gives you a way to remove assets from your taxable estate. You may give up to $15,000 to as many individuals as you wish without paying federal gift tax, so long as your total gifts keep you within the lifetime estate and gift tax exemption of $11.58 million for the year 2020 and $11.7 million for 2021.[4]

Managing through the annual gift tax exclusion can involve a complex set of tax rules and regulations. Before adjusting your strategy, consider working with a professional who is familiar with the rules and regulations.

Are you striving for greater tax efficiency? In retirement, it is especially important – and worth a discussion. A few financial adjustments may help you manage your tax liabilities.

How and When to Sign Up for Medicare

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 **Medicare enrollment is automatic for some.** For those receiving Social Security benefits, the coverage starts on the first day of the month you turn 65.[1]

If you are not receiving Social Security benefits at 65, you may be delaying until you reach full retirement age, or until you reach 70. If you're coming up on 65 and not receiving Social Security benefits, SSDI, or benefits from the Railroad Retirement Board, you can still apply for Medicare coverage. You can visit your local SSA office or visit www.socialsecurity.gov/medicareonly/ to determine your eligibility.[1]

If you're getting Social Security checks and approaching age 65, you'll get a Medicare card in the mail three months before your 65th birthday. If you are getting SSDI (Social Security Disability Insurance; regardless of your age), the card is scheduled to arrive coincidental with your 25th month of disability. You must be a U.S. citizen or a permanent legal resident of this country. If so, you or your spouse must have earned sufficient credits to be eligible for Medicare, typically earned over 10 years.[2]

“You can enroll in any type of Medicare coverage within this seven-month window.”

When can you add or drop forms of Medicare coverage? Medicare has enrollment periods that allow you to do this.

*The initial enrollment period is seven months long. It starts three months before the month in which you turn 65 and ends three months after that month. You can enroll in any type of Medicare coverage within this seven-month window – Part A, Part B, Part C (Medicare Advantage Plan), and Part D (prescription drug coverage). As it happens, if you don’t sign up for some of this coverage during the initial enrollment period, it may cost you more to add it later.[1]

*Once you are enrolled in Medicare, you can only make changes in coverage during certain periods of time. For example, the open enrollment period for Part D is October 15-December 7, with Part D coverage starting January 1.[1]

Do you have questions about eligibility or the eligibility of your parents? Your first stop should be the Social Security Administration (see the contact information in the fourth paragraph above). You can also visit www.medicare.gov.

Qualified Charitable Distributions

A choice for I.R.A. owners who want to reduce taxes linked to I.R.A. distributions

Do you have an I.R.A? As you enter your 70s, you may start to look at that I.R.A. not only as an asset, but also as a problem. By law, you must take required minimum distributions (R.M.D.s) from a Traditional I.R.A. once you reach age 72; there are very few exceptions to this. The downside of these R.M.D.s? The entire distribution is taxable. (You never have to take R.M.D.s from a Roth I.R.A., provided you are its original owner.)[1]

While the income from the R.M.D. is nice, the linked taxes can be a headache. Relief for that headache might be available to you, though. Did you know that you can potentially satisfy some or all of your annual R.M.D. requirement in a way that can help you manage taxes and make a charitable impact?

Consider the Qualified Charitable Distribution, Q.C.D. This is a direct asset transfer from an I.R.A to a charity or non-profit organization of your choice. The organization must be tax-exempt under the Internal Revenue Section 501(c)3.[2]

A Q.C.D., sometimes called a charitable I.R.A. gift, is intended to accomplish two things. One, it gives you a chance to contribute up to $100,000 in a single year to a cause or charity. Two, you can count the entire amount of the Q.C.D. toward your R.M.D. for the year, and the Q.C.D. amount may not be included in your gross income.[2]

You must be at least 70½ years old to make a Q.C.D. in other words, no Q.C.D.s during the year when you don’t have to take R.M.D.s. (If you take an I.R.A. distribution before age 59½, it could be subject to a 10% federal income tax penalty.)[2]

You may want to coordinate a Q.C.D. with the help and guidance of a financial professional, because if you improperly manage the transfer of assets between your I.R.A. and the charity, the tax break you hope for could be lost. You also need to allow enough time for the asset transfer to occur, meaning Q.C.D.s are best arranged before the very end of a calendar year.[2,3]

In 2020, the age limit for putting money into a Traditional I.R.A. was lifted, and some older I.R.A. owners wondered if they could make a Q.C.D. to a charity and simultaneously characterize it as an I.R.A. contribution. The IRS said no to that.[2]

That said, a Q.C.D. is a choice that you may want to look at, especially if you think of taxes when you think of your mandatory annual I.R.A. distributions. It should be noted that the tax treatment of I.R.A.s can change from year to year, and remember, this article is for informational purposes only and des not constitute real-life advice. If a Q.C.D. interests you, consider talking with a financial professional before making any move.

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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