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Dear Friends:

As I write this, we're experiencing a bit of a "false spring". Every sensory indication tells me that spring is here, but I know from experience that it's too good to be true. Last year, a piece of legislation referred to as "The SECURE Act" bounced around Congress right up until late December. Every indication was that it would not reach a vote. Past experience should have told me that our legislators would find a way to screw it up…and they did.

The SECURE Act was passed in December and brings several changes to the retirement planning and estate planning landscapes. This month's newsletter contains two articles that focus specifically on how these changes could affect you and your beneficiaries.

Jesse

March 2020

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Due Date Approaches for 2019 Federal Income Tax Returns

Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of your 2018 tax return and gathering W-2s, 1099s, and deduction records. You'll need these records whether you're preparing your own return or paying someone else to prepare your tax return for you.

Don't procrastinate

The filing deadline for individuals is generally Wednesday, April 15, 2020.

Filing for an extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 15, 2020) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

Filing for an automatic extension does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the April filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

Note: *Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances, you are generally allowed an automatic two-month extension (to June 15, 2020) without filing Form 4868, though interest will be owed on any taxes due that are paid after the April filing due date. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.*

What if you owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible. If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

Expecting a refund?

The IRS is stepping up efforts to combat identity theft and tax refund fraud. New, more aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, the IRS is now required to hold refunds on all tax returns claiming the earned income tax credit or the additional child tax credit until at least February 15.

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a tax return.

Is It Time to Review Your IRA Estate Planning Strategies?

The SECURE Act ushered in changes that may have a dramatic impact on IRA estate planning strategies. Account owners may want to review their plans with their financial professionals.

There are costs and ongoing expenses associated with the creation and maintenance of trusts.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, which was passed in December 2019 as part of a larger federal spending package, included a provision that warrants special attention from those who own high-value IRAs. Specifically, the "stretch" IRA provision — which permitted nonspouse beneficiaries who inherited IRAs to spread distributions over their lifetimes — has been substantially restricted. IRA owners may want to revisit their estate planning strategies to help prevent their heirs from getting hit with higher-than-expected tax bills.

The old "stretch" rules

Under the old rules, a nonspouse beneficiary who inherited IRA assets was required to begin minimum distributions within a certain time frame. Annual distributions could be calculated based on the beneficiary's life expectancy. This ability to spread out taxable distributions over a lifetime helped minimize the annual tax burden on the beneficiary. In the past, individuals could use this stretch IRA strategy to allow large IRAs to continue benefiting from potential tax-deferred growth for possibly decades.

Example: *Consider the hypothetical case of Margaret, a single, 52-year-old banking executive who inherited a million-dollar IRA from her 85-year-old father. Margaret had to begin taking required minimum distributions (RMDs) from her father's IRA by December 31 of the year following her father's death. She was able to base the annual distribution amount on her life expectancy of 32.3 years. Since she didn't really need the money, she took only the minimum amount required each year, allowing the account to continue growing. Upon Margaret's death at age 70, the remaining assets passed to her 40-year-old son, who then continued taking distributions over the remaining 13.3 years of Margaret's life expectancy. The account was able to continue growing for many years.*

The new rules

As of January 2020, the rules for inherited IRAs changed dramatically for most nonspouse beneficiaries.[1] Now they generally are required to liquidate the account within 10 years of the account owner's death. This shorter distribution period could result in unanticipated and potentially large tax bills for high-value inherited IRAs.

Example: *Under the new rules, Margaret would have to empty the account, in whatever amounts she chooses, within 10 years. Since she stands to earn her highest-ever salaries during that time frame, the distributions could push her into the highest tax bracket at both the federal and state levels. Because the account funds would be depleted after 10 years, they would not eventually pass to her son, and her tax obligations in the decade leading up to her retirement would be much higher than she anticipated.*

Notable exceptions

The new rule specifically affects most nonspouse designated beneficiaries who are more than 10 years younger than the original account owner. However, key exceptions apply to those who are known as "eligible designated beneficiaries" — a spouse or minor child of the account owner; those who are not more than 10 years younger than the account owner (such as a close-in-age sibling or other relative); and disabled and chronically ill individuals, as defined by the IRS. The 10-year distribution rule will also apply once a child beneficiary reaches the age of majority and when a successor beneficiary inherits account funds from an initial eligible designated beneficiary.

A word about trusts

In the past, individuals with high-value IRAs have often used what's known as conduit — or "pass-through" — trusts to manage the distribution of inherited IRA assets. The trusts helped protect the assets from creditors and helped ensure that beneficiaries didn't spend down their inheritances too quickly. However, conduit trusts are now subject to the same 10-year liquidation requirements, so the new rules may render null and void some of the original reasons the trusts were established.

What can IRA account owners do?

IRA account owners should review their beneficiary designations with their financial or tax professional and consider how the new rules may affect inheritances and taxes. Any strategies that include trusts as beneficiaries should be considered especially carefully. Other strategies account owners may want to consider include converting traditional IRAs to Roths; bringing life insurance, charitable remainder trusts, or accumulation trusts into the mix; and planning for qualified charitable distributions.

[1] For account owners who died prior to December 31, 2019, the old rules apply to the initial beneficiary only (i.e., successor beneficiaries will be subject to the 10-year rule).

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The SECURE Act Offers New Opportunities for Individuals and Businesses

The SECURE Act (Setting Every Community Up for Retirement Enhancement Act) is major legislation that was passed by Congress as part of a larger spending bill and signed into law by the president in December. Here are a few provisions that may affect you. Unless otherwise noted, the new rules apply to tax or plan years starting January 1, 2020.

If you're still saving for retirement

To address increasing life expectancies, the new law repeals the prohibition on contributions to a traditional IRA by someone who has reached age 70½. Starting with 2020 contributions, the age limit has been removed, but individuals must still have earned income.

If you're not ready to take required minimum distributions

Individuals can now wait until age 72 to take required minimum distributions (RMDs) from traditional, SEP, and SIMPLE IRAs and retirement plans instead of taking them at age 70½. (Technically, RMDs must start by April 1 of the year following the year an individual reaches age 72 or, for certain employer retirement plans, the year an individual retires, if later).

If you're adding a child to your family

Workers can now take penalty-free early withdrawals of up to $5,000 from their qualified retirement plans and IRAs to pay for expenses related to the birth or adoption of a child. (Regular income taxes still apply.)

If you're paying education expenses

Individuals with 529 college savings plans may now be able to use account funds to help pay off qualified student loans (a $10,000 lifetime limit applies per beneficiary or sibling). Account funds may also be used for qualified higher-education expenses for registered apprenticeship programs. Distributions made after December 31, 2018, may qualify.*

If you're working part-time

Part-time workers who log at least 500 hours in three consecutive years must be allowed to participate in a company's elective deferral retirement plan. The previous requirement was 1,000 hours and one year of service. The new rule applies to plan years beginning on or after January 1, 2021.

If you're an employer offering a retirement plan

Employers that offer plans with an automatic enrollment feature may automatically increase employee contributions until they reach 15% of pay (the previous cap was 10% of pay). Employees will have the opportunity to opt out of the increase.

Small employers may also benefit from new tax credit incentives. The tax credit that small businesses may take for starting a new retirement plan has increased. Employers may now take a credit equal to the greater of (1) $500 or (2) the lesser of (a) $250 times the number of non-highly compensated eligible employees or (b) $5,000. The previous maximum credit amount allowed was 50% of startup costs up to a maximum of $1,000 (i.e., a $500 maximum credit).

In addition, a new tax credit of up to $500 is available to employers that launch a new SIMPLE IRA or 401(k) plan with automatic enrollment.

These credits are available for three years, and employers that qualify may claim both credits.

*There are generally fees and expenses associated with 529 savings plan participation. Investments may lose money or not perform well enough to cover college costs as anticipated. Investment earnings accumulate on a tax-deferred basis, and withdrawals are tax-free if used for qualified higher-education expenses. For withdrawals not used for qualified higher-education expenses, earnings may be subject to taxation as ordinary income and possibly a 10% federal income tax penalty. Discuss the tax implications of a 529 savings plan with your legal and/or tax advisors; these can vary significantly from state to state. Most states offer their own 529 plans, which may provide advantages and benefits exclusively for residents and taxpayers, including financial aid, scholarship funds, and protection from creditors.

Before investing in a 529 savings plan, consider the investment objectives, risks, charges, and expenses carefully. Obtain the official disclosure statements and applicable prospectuses — which contain this and other information about the investment options, underlying investments, and investment company — from your financial professional. Read these materials carefully before investing.

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Is there any way to stop getting unwanted robocalls?

Whether it's a helpful announcement from your child's school or an appointment reminder from a doctor's office, getting robocalls has become an everyday occurrence. Unfortunately, robocalls are also used by criminals to collect consumers' personal and financial information and/or conduct various scams.

The good news is that consumers have won additional protections against unwanted robocalls under the Telephone Robocall Abuse Criminal Enforcement and Deterrence (TRACED) Act. One of the main goals of the law is to make it easier for consumers to avoid unwanted robocalls by:

- Requiring all carriers to implement caller-ID technology at no additional cost to consumers
- Making it easier for law enforcement to prosecute illegal robocallers and increasing penalties for robocall violations
- Creating an interagency task force to study and improve government prosecution of robocall violations

Even when these new protections are implemented, it will take some time to eliminate unwanted robocalls. In the meantime, here are some things you can do to protect yourself:

- Don't answer calls when you don't recognize the phone number.
- If you pick up an unwanted robocall, hang up right away and avoid answering "yes" or "no" questions, providing personal information, or pressing a number to "opt out."
- Consider signing up for a robocall blocking service. Many phone service providers now offer robocall blocking solutions at no additional charge, or you can download additional robocall protection through a third-party app.
- Register your phone number on the National Do Not Call (DNC) Registry, which removes your number from the call lists used by legitimate telemarketing companies. Keep in mind that registering with the DNC Registry will result in your getting fewer calls from legitimate telemarketers, but it won't stop illegal robocallers from contacting you.

How can I avoid becoming a victim of a social engineering scam?

Imagine that you receive an email with an urgent message asking you to verify your banking information by clicking on a link. Or perhaps you get an enticing text message claiming that you've won a free vacation to the destination of your choice — all you have to do is click on a link you were sent. In both scenarios, clicking on the link can accidentally result in revealing your sensitive personal and financial information to a cybercriminal.

In a social engineering scam, a cybercriminal psychologically manipulates victims into divulging sensitive information. Cybercriminals "engineer" believable scenarios designed to evoke an emotional response (curiosity, fear, empathy, or excitement) from their victims. As a result, people often react without thinking first due to curiosity or concern about the message that was sent. Since social engineering scams appear in many forms and appeal to a variety of emotions, they can be especially difficult to identify.

Fortunately, there are steps you can take to protect yourself from a social engineering scam:

- If you receive a message conveying a sense of urgency, slow down and read it carefully before reacting. Don't click on suspicious or unfamiliar links in emails, text messages, and instant messaging services.
- Never download email attachments unless you can verify that the sender is legitimate. Similarly, don't send money to an email that requests charitable help unless you can follow up directly with the organization.
- Be wary of unsolicited messages. If you get an email or a text that asks you for financial information or passwords, do not reply, delete it.
- Remember that social engineering scams can also be used over the phone. Use healthy skepticism when you receive phone calls that demand money or request sensitive personal and financial information.