“**6th Edition of J.K. Lasser’s New Rules for Estate, Retirement and Tax Planning** is available in bookstores now and includes the Tax Cuts and Jobs Act of 2017 (Trump Tax Plan)…with updated strategies and information.” Purchase it on Amazon or from your favorite book retailer.

5/8/2020 COVID-19 Creates New Financial Options

Mostly COVID-19 has wreaked havoc on all of us but if you are the type of person always looking for the silver lining, here are three new financial options available to you:

Required Minimum Distributions (RMDs)

In response to COVID-19, congress passed a provision under the CARES Act that suspends the requirement that people age 72 or older must take a taxable distribution from their IRA. This will allow you to both avoid the income taxes associates with the distribution and allow your money to continue growing tax-deferred.

401(k) Loans

In the past, if you wanted to borrow from your 401(k), you were limited to a maximum loan of $50,000 or 50% of your vested balance, whichever was less. Under the CARES Act, the loan amount is increased to $100,000 or 100% of your vested balance, whichever is less.

401(k) Withdrawals

If instead of a loan from your 401(k), you choose to make a hardship distribution and you are under the age of 59½, you can do so without the imposition of the 10% federal early withdrawal penalty. You will still owe income tax on the withdrawal. This is also a provision under the CARES Act for 2020.

5/16/2020 COVID Induced Strategy: Low interest loans to family members

A byproduct of the COVID economic crash is extremely low interest rates…orchestrated by the Federal Reserve. One long-standing family wealth transfer strategy is making low interest loans to family members. For loans between family members you are required by law to charge a minimum interest rates based on the monthly published Applicable Federal Rates (AFR). These rates change monthly and are currently at very low levels. For May 2020:

AFR short-term rate: 0.25% (loans under 3 years)
AFR mid-term rate: 0.58% (loans 3-9 years)
AFR long-term rate: 1.15% (loans longer than 9 years)

Here is how the strategy might work:

<u>Example #1</u>: A parent wishes to make a $100,000 low interest loan to a child for the purpose of starting a business and they expect to be repaid within nine years. They create a note using the AFR mid-term rate of 0.58%. The annual interest payable from the child to the parent would be $580. If desired, the parent could use their annual gift exclusion to forgive the interest. They could also forgive a portion of the principal annually (up to $15,000 per year, per parent), if desired…and avoid using any of their lifetime annual exclusion amount ($11.58 million for 2020).

<u>Example #2</u>: If the parent wanted to help a child buy a home and use a long-term loan, of say 30 years, using the AFR long-term rate, the annual interest would only be $1,150.

6/5/2020   COVID Affects RMDs for 2020

COVID has affected many areas of our lives including our finances. In normal times, if you are age 72 or older, you'd be required to take a Required Minimum Distribution (RMD) from your IRA or other retirement account. Because of COVID, under the CARES Act, that requirement is waived for 2020.

What this means for you:

- If you don't need the money for lifestyle, you can skip this year and allow the money to continue to grow tax-deferred for another year. If you need some, but not all, you can take what you need (and pay ordinary income tax on that portion).
- Do some tax planning. Consider your likely marginal income tax bracket this year versus 2021. Even if you don't need the money, it might make sense to go ahead and take the distribution if you're in a particularly low tax bracket this year.
- If you've already taken your RMD for 2020 but wish you hadn't, you may still be able to reverse the transaction using the 60-day rule or by appealing to the IRS.

Details surrounding RMDs are complex. Contact your tax or financial advisor before you take action.