ClientLine®

July 2019

TIME FOR A TAX TUNE-UP

The dog days of summer are a great time to review your finances and make the adjustments needed to ensure a tax-efficient year. Here are some strategies you might consider to minimize taxes:

RETIREMENT CONTRIBUTIONS

The IRS classifies many retirement plans as "qualified," meaning there are certain tax advantages to investing in them. Contributions made to a 401(k), SIMPLE or Simplified Employee Pension (SEP) plan are taken from your check pre-tax, meaning they are tax-deferred. If, for example, you're in the 32% combined income bracket, you pay $320 of income tax for every $1,000 earned and not contributed to the plan. Same goes for a traditional IRA if you qualify by income. And potential growth is also tax-deferred in all of these retirement plans.

HEALTH SAVINGS ACCOUNT

If you have a Health Savings Account and you don't max contributions, you're missing a good deal. HSA contributions, potential growth and withdrawals made for qualified medical expenses are tax-free. You can continue to take distributions from this triple-tax-free savings vehicle in retirement, too.

RETIREMENT DISTRIBUTIONS

If you are retired and drawing income from multiple sources, you'll want to do so in the most tax-efficient way. As long as you keep in mind that distributions from qualified plans must begin by age 70½, it often makes sense to first withdraw money from taxable investments and accounts in order to let money in qualified plans continue to potentially build tax-free. Incidentally, a Roth IRA doesn't require minimum distributions, so you can let that grow as long as you want.

OTHER TAX IMPACTS

You can't deduct 529 plan contributions on your federal return, but many states let you deduct them on state returns. On either level, earnings grow tax-deferred and withdrawals made to pay qualified education expenses are tax-free. If you're considering buying a first home, mortgage interest and real estate taxes are deductible up to certain limits.

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No Gift Clawback

The IRS and Treasury Department issued proposed regulations that would ensure no clawback of large gifts if the federal estate tax exemption reverts back to 2017 levels. This would occur if Congress doesn't make the current inflation-adjusted level permanent before its scheduled reversion in 2026.

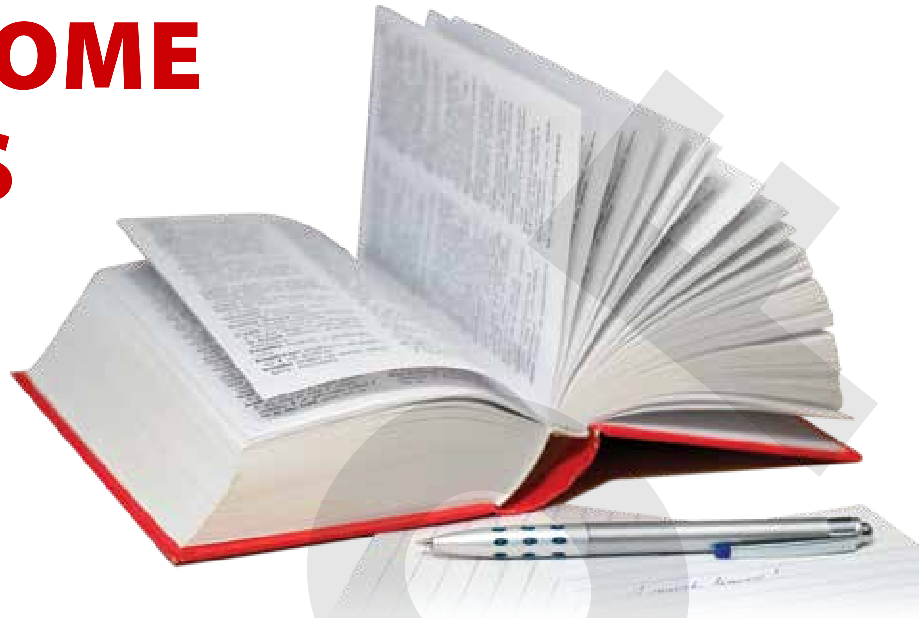
Fears Calmed

The basic exclusion amount, which the new tax law doubled in 2017, was among the many provisions not made permanent, so taxpayers were concerned that their heirs would be on the hook for the difference if the tax provision reverted back to 2017 levels.

Exclusion Doubled

The new tax law increased the threshold for individuals from $5 million to $10 million for tax years 2018 through 2025, indexed to inflation. The inflation-adjusted threshold is $11.4 million in 2019. If you have concerns about estate taxes, see a tax pro.

TERMS INCOME INVESTORS SHOULD KNOW



If you are an income investor, you'll want to understand what yield curve, inversion and laddering are all about. Here's why:

WHY THEY MATTER

When business print publications and websites breathlessly reported that the yield curve had inverted earlier this year, many casual investors wondered what this was all about. Inversion happens when short-term U.S. Treasury securities pay more than 30-year Treasury bonds do. Typically, bonds with longer maturities yield higher returns than shorter-term bonds and notes, rewarding investors for their patience.

Think of a normal yield curve's shape as looking like the left half of a lowercase letter "n." The lower end on the left signifies short-term, lower-yielding bonds, and it works its way up and to the right for longer-term securities. This is often a sign of a healthy economy. When the curve inverts, it looks like the left half of a letter "u."

An inverted yield curve often signifies a troubled economy ahead. In unsettled times, investors from around the world, including governments, flock to buy 30-year Treasury bonds because they are backed by the full faith of the U.S. government. Higher demand drives down yields, bringing them to the same level as or below those of two-year Treasury securities, whose yields may rise because of an uncertain short-term economy.

LADDERING

Income investors who worry about interest risk and those seeking to provide a predictable source of income from fixed-income securities often use laddering in an attempt to minimize risk and ensure consistent liquidity.

A fixed-income ladder can include individual bonds, bond mutual funds, bank CDs and even fixed annuities. A typical laddered portfolio's maturities will be spread out, thus ensuring steady income over time. Talk to your financial professional to learn more.

Client PROFILE ••••

Laura is nearing her planned retirement at age 66 and she is considering cashing in her entire 401(k) plan in one lump sum. What are the pros and cons of taking this money all at once?

If Laura needs the money for medical or other emergencies, a lump sum may make sense. Otherwise, she will lose potential tax-deferral benefits unless she puts the funds back into another tax-deferred account within a short time period.

Another potential disadvantage is how a lump sum distribution can create a larger tax bill. The larger the lump sum, the greater the chance she will move into higher state and federal income tax brackets.

Also, Laura will pay more for Medicare Part B if her income for the year exceeds a certain level. In 2019, taxpayers pay $135.50 for Part B insurance if they file tax returns jointly and their income is $170,000 or less. The threshold for taxpayers filing individually is $85,000, so a large lump sum can easily put her income above these thresholds.

Client Profile is based on a hypothetical situation. The solutions discussed here may or may not be appropriate for you.

HOW TO SET UP AN INTERNSHIP PROGRAM

If your business has grown or you are constantly looking for qualified employees, setting up an internship program may help both your business and interns who seek valuable job experience. An internship program is not, however, free labor. Federal law prohibits it in most cases, requiring most interns be paid at least the federal minimum wage.

PROGRAM BENEFITS

A successful internship is one that works for your company and your interns. A mutually beneficial relationship will include job duties beyond getting coffee and tasks unrelated to business. It will include clearly stated duties and goals, and a feedback mechanism that helps your interns review any progress or challenges.

Your business benefits because an intern can fill in as a temporary employee would, helping to meet work demands during summer vacation schedules, while also potentially becoming a candidate for future full-time employment.

KNOW THE RULES

Talk to an attorney experienced in the area of employment law to ensure you run a successful internship program.

DISASTER PLANS FOR SMALL BUSINESSES

Before hurricanes, tornadoes and floods make summer news, take some time to create or review a disaster plan for your business.

DISASTER SEASON

Depending on where you're located, chances are bad weather will disrupt your business. Coastal communities will want to keep an eye out for windstorms, as they should every hurricane and tornado season.

According to a forecast issued in early April by Colorado State University's Department of Atmospheric Science, we can expect to see 13 named storms in the Atlantic basin in 2019. They predict five hurricanes and two major hurricanes. Tornadoes are typically less common in summer, but often develop around hurricanes.

Because heavy rain almost always accompanies damaging winds, floods are another possible peril. You will need to establish an emergency plan, that includes a strategy for evacuation, for your business and, most of all, your employees.

PROTECT YOURSELF

Once you take the steps necessary to protect life, you can plan ahead to protect your property and your business. Having an offsite computer data backup at a physical location or in the cloud is important, as is having a plan to move and protect important papers.

You will want to work with an insurance professional to ensure you have protection that covers financial loss. This includes not only property and casualty coverage, but also flood and business interruption insurance. The latter is crucial because you can experience lost sales after a disaster, even if your company has escaped most of the damage.

....Q&A

Q **I didn't enroll in Medicare when I was eligible at age 65, even though I wasn't working at the time. Now I want to enroll, but heard I can only do this during certain times. Is this true?**

A You can sign up for Medicare Parts A and B during the general enrollment period, which is January 1 – March 31 each year, if you didn't sign up when first eligible and you weren't eligible for a special enrollment period. If you didn't have health insurance through your employer or spouse's employer and you didn't take Medicare when eligible, you may have to pay higher premiums for late enrollment.

Q **Last year, I lost some principal in a mutual fund that invested only in U.S. Treasury securities. How could I lose money with them when there are federal guarantees?**

A Treasury bills, bonds and notes held until maturity are guaranteed. Not so for these securities if you sell them before maturity or a fund manager sells them within a mutual fund. When interest rates go up, your lower-rate bonds aren't as attractive if you try to sell them before maturity. Mutual funds, including those with bonds, can lose money at any time if they buy and sell these securities at less than peak values.

ClientLine® SHORT BITS

> PPI SLOWING. The Producer Price Index (PPI) for final demand for the year ending February 2019 rose just 1.9%, calming inflation fears. When adjusted to eliminate foods, energy and trade services, the PPI increased 2.3% for the same period. When the annual price increases experienced by producers are relatively low, consumers typically can expect prices they pay to stay stable.

> EARNINGS UP. Real average hourly earnings for all employees increased 1.9%, seasonally adjusted for the year ending February 2019, according to the Bureau of Labor Statistics (BLS). The change in real average hourly earnings, combined with a 0.3% decrease in the average workweek, created a 1.6% increase in real average weekly earnings. Production and nonsupervisory employees, who are typically among the lower paid, saw real average hourly earnings increase 2.2%. After factoring in the 0.6% decrease to their average workweek, real average weekly wages rose 1.5%.

> WHAT'S UP? . . . and what's down? According to the BLS, lettuce (14.5%), tax prep and accounting services (13.8%), laundry equipment (8.9%) and health insurance (7.7%) showed some of the biggest price increases for the year ending February 2019. The price of televisions dropped 16.8%, followed by telephone hardware and calculators (-15.1%), infants' equipment (-11.5%), and dishes and flatware (-9.1%).

> MORE CONFIDENT. Americans in January 2019 were feeling more confident about their finances than a year prior, according to a recent Gallup Poll. More than two-thirds of respondents said they expected to be better off in the year ahead. Half said they were better off than the year before.