ClientLine®

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NEW RETIREMENT RULES

Congress capped off last year by passing the Setting Every Community Up for Retirement Enhancement (SECURE) Act as part of a larger spending bill. This is the biggest change in retirement saving rules in more than a decade. We urge you to discuss any changes to your retirement strategy with your tax and financial professionals, but here's a quick look at why the new law may change your approach to saving for retirement.

MORE TIME

One big change is the age when minimum required distributions (RMDs) must begin. Now, that age moves back to April 1 of the calendar year following the year in which you turn 72. Previously it was age 70½. This tweak is particularly helpful if you want to delay taking RMDs as long as possible.

Congress also removed the age cap for contributing to a traditional IRA, as long as there is sufficient earned income to offset the contribution. Previously, you couldn't contribute to one after age 70½, whether or not you earned income.

LESS TIME

While Congress gives, it also takes away in the case of stretch IRAs. Some people who inherit an IRA anytime beginning in 2020 will get less time to stretch out payments. While beneficiaries used to have the ability to stretch inherited IRA assets to last their lifetimes, new rules mandate that some people withdraw all IRA assets within 10 years. There are exceptions to this rule, including surviving spouses, minor children and special-needs beneficiaries.

OTHER CHANGES

Two provisions in this spending bill will especially help younger taxpayers. The first is a new ability to take up to $10,000 tax-free from Section 529 plans to pay qualified student loans and the cost of some apprenticeships. The second is a new penalty-free exception to take up to a $5,000 distribution penalty-free from an IRA and some qualified retirement plans for a qualified birth or adoption.

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SECURE for Business

The SECURE Act also creates big changes for companies offering qualified retirement plans. Here are a few of them:

Easier Access

More small businesses are eligible to start a qualified retirement plan for employees, as the new law allows two or more unrelated employers to join a pooled employer plan. More parttime workers are eligible to make elective deferrals, depending on their length of tenure, and plan sponsors have a new safe harbor when offering annuities.

New Credits

Employers will also see higher tax credits for plan startup costs and up to a $500 credit for startup plans that include automatic enrollment in 401(k) plans and SIMPLE IRAs. The safe harbor for the automatic enrollment escalation cap rises from 10% to 15% of pay, while certain penalties for failing to file plan returns increase.

Talk to your tax and plan professionals to learn more.

EXPLORING TRUSTS FOR YOUR ESTATE

While the federal estate tax basic exclusion amount has risen dramatically in recent years, some states have not followed suit by raising their exemptions. Even with higher current exemptions, the future of taxes is unpredictable, so you need a strategy to deal with potential estate taxes if you own significant assets. A trust could be part of that strategy.

CONTROL AND PRIVACY

A trust can help you control when and how assets are used during your lifetime. And when estate taxes aren't an issue, a revocable trust may offer an attractive option. (It is revocable because you can change its terms or cancel it.)

Trusts, both of the revocable and irrevocable variety, shield their assets from the public glare of probate. One caveat: Only those assets owned by the trust avoid probate, so you'll have to change the title of any assets you move. Both types of trusts can also include terms and conditions that deal with potential incapacitation.

And even when taxes aren't an issue, you may want to consider trusts that can offer you more control over how and when adult special-needs and spendthrift children receive assets during their lifetimes.

TAX REDUCTION

While all trusts provide a measure of privacy and control, revocable trusts won't provide tax advantages. However, an irrevocable trust will. The federal estate tax exclusion, now more than $11 million per person, was half that just three years ago and below $1 million two decades ago. As governments seek revenue, know that taxes can rise as easily as they fall.

Regardless, some states offer the same exemption allowed by the federal government, but others decouple their rates – some to as low as a $1 million exemption. Other states levy separate inheritance taxes, too. So if you have assets you want to pass to future generations, talk to an estate planning attorney and your tax professional to learn more about trusts.

Client PROFILE....

Rosa has a large estate that greatly benefitted from the federal tax changes at the end of 2017, but she worries about the tax breaks expiring and estate and gift tax exemptions reverting to 2017 levels. What should she do?

First, Rosa can worry less about the tax expiring because the IRS recently announced that taking advantage of the increased gift and estate tax basic exclusion amounts in effect since 2018 won't result in a clawback if the exclusion amount drops back to pre-2018 levels in 2026, as scheduled.

A special rule will allow estates to compute their estate tax credit using the higher of the basic exclusion amount applicable to gifts made during life or the exclusion applicable on the date of death. This should calm Rosa's worries.

Even with this increased certainty, Rosa might still take advantage of the annual gift tax exclusion, which in 2020 is $15,000 per donor per recipient to as many people as she would like until reaching the lifetime limit. And she should also consult a person experienced with estate planning issues.

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

A QUALIFIED OPPORTUNITY

When you sell appreciated assets, you pay taxes on them in the year you realize capital gains. But when you invest in a Qualified Opportunity Fund (QOF), you defer capital gains taxes and potentially receive tax-free appreciation. If you invest outside of a qualified retirement plan, you might explore how these types of funds could fit into your investment strategy.

A NEW OPPORTUNITY

Qualified Opportunity Zones (QOZs) were created by the Tax Cuts and Jobs Act (TCJA), the last major federal tax overhaul, to benefit economically distressed areas and those who invest in them. QOF investments are either corporations or partnerships that must meet a number of requirements. For example, a QOF must hold at least 90% of its assets in QOZ property, and at least 50% of a zone property's gross income should come from conducting business in a designated zone.

TAX BENEFITS

If you reinvest capital gains into these funds, you defer gains until selling or exchanging shares (until 2026, when this provision expires with the rest of the TCJA). If you hold the investment for at least five years, you'll get a 10% step up in basis on reinvested capital gains. A special rule applies if you hold a QOF at least 10 years: the amount gained will be tax-free because the basis will increase to 100% of fair market value once gains are realized. Talk to your tax professional to learn more.

A DIFFERENT TYPE OF ENTERPRISE

If you're looking to expand your business, moving to a Qualified Enterprise Zone may provide an opportunity to grow in a tax-smart way.

A PRIMER

Enterprise zones have been around for decades. And while federal tax breaks for enterprise zones expired, companies that meet certain requirements may gain state and local tax credits in exchange for locating or expanding their businesses in locales that qualify as enterprise zones.

Individual enterprise zone rules vary, but generally a company looking for tax credits will need to actively conduct a significant part of its business and earn a good ratio of its gross income within the zone. A substantial part of a company's tangible and intangible property and services typically must be located in the zone, and enterprise zone companies typically must hire a healthy percentage of their employees from the distressed areas in which they are located.

In New Jersey, for example, which has one of the country's longest-running enterprise zone programs, the Department of Community Affairs oversees 32 designated zones. Economic incentives are generous, including up to a $1,500 tax credit per permanent fulltime employee hired. Individual states and locales have different rules, so contact your local agencies to learn more.

Q&A

Q **My company has problems keeping employees, a problem that has escalated this year. What can I do?**

A Record low unemployment has made this a job seeker's market, but a history of problems retaining employees might suggest that you take a new look at your company's practices. Start by comparing your salaries, benefits and advancement opportunities to what your competitors offer. Poll your employees anonymously to ask how they view their work environment and work-life balance. Look at your benefits to find gaps you may be able to fill. Throughout the process and after, communicate frequently and effectively.

Q **I hired a person to do my housekeeping. Do I have to pay or deduct employment and other taxes for this person?**

A This will depend on a number of factors. According to the IRS, housekeepers and other household workers like babysitters and gardeners are your employees if you control their work and how they do it. If you have a household worker you expect to pay more than $2,200 in 2020, you'll typically have to pay 7.65% of cash wages for Medicare and Social Security taxes, and withhold the same amount (plus income taxes if they ask you to) from the employee's pay. Talk to your tax professional to learn more.

PROOF

ClientLine® SHORT BITS....

> COMP BREAKDOWN

In September 2019 compensation costs for private industry workers averaged $34.77 per hour worked. Wages and salaries averaged $24.38 per hour worked while benefit costs comprised the rest. The cost of benefits was nearly 30% of total compensation, with health insurance comprising 7.5% and paid leave 7.2% of total comp. The average cost for life and disability insurance, though, was less than one-half of 1%.

> BONUS TIME

If you are a private industry worker who received a bonus, you're among the minority. About one of every 10 employees surveyed had access to end-of-year bonuses (generally performance-based) in 2019, while 6% had access to holiday bonuses (typically equal for all staff). Workers in natural resources, construction and maintenance fared better with year-end and holiday bonuses coming in at 15% and 12%, respectively. Service workers fared the worst.

> EMPLOYERS SQUEEZED

Some employers are still finding rough going trying to fill job openings. According to the Bureau of Labor Statistics, there were 7.3 million job openings on the last business day of October 2019 and about 5.9 million unemployed people during October, a ratio of 0.8 unemployed people to job openings. Since January 2018, that ratio has ranged between 0.8 and 1.0.

> UNPAID CARE

Some 40 million Americans age 15 and over provide unpaid eldercare, and 58% of these providers are women. About one in four of the caregivers were between ages 55 to 64, 21% were ages 45 to 54 and nearly 18% were age 65 and older. More than 8 million eldercare providers also had children living at home.