2020.11 CARES Act & the Economic Impact of COVID-19

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Back on New Year's Eve, we welcomed in the year 2020. New decade, election year, Olympics, we all had things to look forward to. We were probably gathered with friends, remember what that was like, or if we weren't, we probably now wish we had been, just one last time. This New Year's Eve, it will likely be much more about saying good riddance to 2020 than excitedly welcoming 2021.

All in all, there were some good things to come out of Covid-19, there were, right? Well if nothing else we all saved money traveling less, going out to eat less, and certainly entertaining less. And if you owned Amazon, Wayfair or Zoom stock, well you were likely rewarded. My wife and I for sure helped grow their profits.

But seriously, here we are, 8 months into this pandemic, two new tax bills, an election looming or over, maybe, wondering how it affected us. That is my agenda today. I won't kid you, I have been reduced to your computer screen and I have only my imagination to visualize you and though I've done a lot of these, it's not the same.

Bear with me today as we go through my slides and I will do my best, with the help of my moderator and your use of the chat, to answer most if not all of your questions at the end of the presentation.

So let's get started …………………..

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I have broken my presentation into these three parts.

1. First, A quick review of the Tax Cut and Jobs Act passed late in 2017. That bill made a lot of changes. While it attempted to simplify returns, some got more complicated and it forced changes in tax planning. Some taxpayers realized lower taxes while others actually paid more. We will take a quick peek at those changes and how your planning had to change.

2. Next, we will look at the SECURE act (Setting Every Community Up for Retirement Enhancements) enacted January 1, 2020 and then the CARES act (Coronavirus Aid, Relief, and Economic Security) passed and enacted March 27, 2020. Both acts made additional changes to our retirement accounts and specifically the handling and calculation of required minimum distributions.
3. Finally, I will spend a little time talking about market conditions, or how did or will the coronavirus pandemic, economic shutdown, the election process, and the election outcome impact the market? I will offer no guarantees, but we at least can put those issues in perspective against the backdrop of the market and where it might be headed.

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Touted as the biggest tax cut and tax change of all time, the jury is still out as to whether that statement is true and exactly how much tax cut individuals actually received. What is clear, is that like tax cuts and legislation before, not everyone feels the impact or at least not to the same degree. Some tax brackets clearly fared better than others, while some saw slight increases. Some returns were made simpler while others may have actually become more complicated. At the end of the day, one thing was true, no one filed their taxes on a postcard and the politicians will slice and dice the statistics to support their argument.

We need to do a quick review so that we can see that tax change alongside the two tax acts that followed.

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Though the tax act made it much more difficult to itemize by limiting some deductions, eliminating others, and raising the standard deduction, it did not eliminate itemized deductions for everyone.

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The standard deduction is aligned with inflation and can be expected to rise each year. This leads to some false statements that individuals now pay lower taxes each year. If this deduction rises with inflation, it is likely that income to be taxed did as well.

As an example, one campaign ad stated that Medicare premiums had been decreased. The truth is that the basic premium actually increased from $134 in 2017 to $144.60 in 2020. While that premium rose, the threshold for determining premium penalty for individuals with high incomes rose, allowing some people to drop back down to the basic premium. So the ad didn’t lie, but it certainly mislead the majority of social security recipients paying for their Medicare insurance.

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Good news for all of us continuing to age.

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I need to exercise caution with this idea. It will still work for high charitable givers, but it is not as intertwined with real estate taxes and timing as it used to be. Because the limit for deducting taxes paid is capped at $10,000, doubling RE taxes does not always work. Before doubling up RE taxes, consider if you will be able to itemize, will the $10,000 threshold block some of those RE taxes and finally, remember that the State gives up to a $300 credit on the first $2500 of RE taxes paid during the year. It may be more advantageous to preserve that credit than the effect of using your total RE taxes to double up.

Here is an Example: Your income taxes paid and withheld were $2800. Your RE taxes are $4500. If you were to pay the previous year’s taxes in installments and then pay the up coming year’s in full in December, you would exceed the $10,000 limit by $1800. If you would have paid only $2700 of your tax bill in December, the remining $1800 paid after the first of the year would generate a State credit on that next year’s tax return.

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This still works and when it does is the best loophole seniors have. The new SECURE act will cause some issues that need to be closely watched if doing IRA transfers while still making contributions.

First, the rules?

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So how does it work?

A transfer from the IRA to a charity acts as a nontaxable distribution while still satisfying your required minimum distribution if one is required and as long as the charitable gift transfer is equal to or greater than your required distribution.

Nontaxable reporting of the RMD keeps your AGI lower and may reduce taxability of your social security and potential Medicare premium penalty.

When we go through the CARES and SECURE acts, we will look at the wrinkle that might need to be dealt with.

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Depending on the outcome of the election, we may see these credits end or we might see energy issues and credits increased. Some of those incentive credits will go to individuals but others may be reserved for businesses that invest in the energy infrastructure.

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The SECURE act was proposed in 2019 and was eventually passed and became effective January 1, 2020.

Meanwhile, the CARES act was passed as an emergency bill on March 27^{th} of this year to deal with economic fallout from the Covid-19 pandemic.

Let’s look at some of the details that might be impacting your returns and financial planning.

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- Here are four of the topics that likely impact your tax planning.

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- The increase to age 72 will not impact taxpayers who turned 70 ½ prior to 2020. If you turned 70 late in 2019, you were not 70 ½ until earlier in 2020 and will then fall under the new age 72 requirement. In other words, you dodged the IRA bullet. If you were already 70 ½ before the end of 2019, you will still be under the previous age rule for RMD’s. In other words, you will continue to take RMD’s as usual, no skipping to age 72.
- Mixed in with this act, the age 70 limit on IRA contributions went away. This means that, if you still have earned income, you can continue to make deductible annual contributions up to $7,000 or your total earned income, whichever is less. There is ironically no maximum age. If you still had earned income at age 80, you could make contributions even though you were also required to take minimum distributions. Sort of an IRA tug of war.

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- The government has delayed your required distribution age and opened the door for you to continue adding to your IRA, but someone has to pay it back.
- The solution turns out to be your heirs other than your spouse. While your spouse has several options when they inherit your IRA, your children do not.
- Your spouse can make the IRA their own and delay distributions to their age 72. Or, they can leave it in your name as a beneficiary and delay

distributions until you would have reached age 72 and still take distributions from that IRA whenever they choose, taxable for income purposes but penalty free.

- No similar options for your children. Once they become heirs of the IRA, they will have 10 years to empty it. The good news is that they can do it in any pattern they choose as long as the last dollars of the account are taken out no later than the tenth year.

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- And then along came COVID-19 and Congress passed the CARES act.
- On the next several slides, we will discuss the effect on minimum distributions, Charitable contributions including qualified charitable transfers, Covid-19 distribution penalty waivers, and the Stimulus check(s).

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- If you have been taking RMD's prior to 2020, you have no requirement for 2020. Let's try to sort out the possibilities.
- If you turned 70 ½ in 2019 and had elected to wait until April 1, 2020 to take your RMD, you can now wait until April 1, 2021. But remember that you will then take two RMD's in 2021, the delayed 2019 RMD and the 2021 RMD.
- What if 2020 was my first distribution year? If you were turning 72 in 2020, you have no requirement to take that RMD before April 1st of 2022. Why? If you turned 72 in 2020, you would have had until April 1 of 2021 to take that first distribution. Since 2020 RMD's have been waived, your requirement will not start until 2021 and you now have until April 1, 2022 to take it. Everything has just been pushed forward by one year.
- If you have not yet turned at least 70 ½ before 2020, your first RMD is not required until the year you turn 72.

- And then there were two changes made to charitable contributions. We used to be limited to claiming charitable contributions up to 50% of our adjusted gross income. The 2017 tax act increased that to 60% and the CARES act has now pushed it to 100%. Please be aware that this applies to cash contributions only and does not include donor advised funds or transfers of appreciated investments. That charitable giving is still governed by the old limits. Ironically, without good planning, this 100% rule doesn't really benefit you since a charitable contribution equal to or greater than your adjusted gross income would leave you with no taxable income and a waste of the other itemized deductions you could have claimed. There is an advantage. If you are this generous as a giver and have an IRA you would love to convert to a ROTH, this rule gives you a chance to reverse calculate the amount to convert so that your itemized deductions then eliminate the balance of your adjusted gross income bringing taxable income to zero and a Roth conversion free of tax.
- In addition, up to $300 can be taken as a straight deduction to taxable income without itemizing.

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- COVID-19 related is defined as: the taxpayer(s) have been diagnosed with the virus, a family member tested positive for the virus, or the taxpayer(s) were economically damaged by the virus.

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The market this year has been able, for the most part, to shake off the unemployment numbers as temporary. There are several reasons for this market behavior. First, large corporations received sizable SBA assistance monies and combined with last year's tax cuts are seen to be able to weather this storm. As the market is based on the value of the stocks from these companies, it is holding its own ….. for now.

Another stabilizing effect is public policy that pushes for a return to normal, right or wrong, that poses the possibility of recovery sooner than predicted. This effect could backfire if we just cause more spread of the virus as we have witnessed in many areas of the country. As the pandemic not only continues to cause a slowdown, but continues to spread, the market has had some days recently that reflects a fear of prolonged COVID-19 impact. The COVID-19 numbers of this past week clearly displayed that effect.

Finally, the ability of so many businesses to adapt their systems of delivery for both products and service have given hope to the market. Restaurants switching to take out, increase in home delivery and curb side pickup are examples of that ability to adapt. Add to that, adaptation to new pandemic related products and services, and the market tends to find some stability.

These behaviors point to an economy that still stays resilient even in the face of a national crisis.

I cannot deliver this message without the warning that all of this is for now. There are no guarantees in the market and each person needs to measure their ability to shoulder the risk inherent that comes with investing. In times like these, ignoring the basic investment rules is dangerous. Respect the need for short term investments and keep them safe from market volatility. If you are taking risk, reserve it for your truly long-term investments, those that you do not need for several years or maybe not at all. The type you might be leaving to your heirs.

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I apologize if this graph is too small to read, but it has to do with direct selling businesses which is an increasing area for new start-ups. I am not promoting this as the ideal business model, but I wanted to point out the biggest increase is in wellness related businesses.

I suspect that the aftermath of the pandemic will only increase people's interest in these kind of products and service and demonstrates the adaptation that businesses are capable of making and the stability that adds to our economy and indirectly, to the market. In other words, HOPE.

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Depending on whose participating, I have given this presentation either one day ahead of or one day after the election. As I write this, I am willing to bet that the outcome is still unknown and may be for a while yet.

All I can say is that the market will react as the outcome becomes known. The market has gone both up and down under either political party. While the Democrats are known for increased social program spending, the Republican Party has favored business expansion and tax cuts. These positions can both benefit and hurt the market. While social spending tends to increase income which in turn increases spending into the economy, it also demands tax increases or at least diminished tax cuts to support it. Tax cuts, though quick stimulus to the economy, increase debt spending and starve off government programs which ultimately mean jobs.

The truth is that the market performs best in deadlock. A divided Congress no matter which party is in the Whitehouse or party control of Congress but the opposite party in the Whitehouse, means little will get done and the market then believes the rules it has adapted to, won't change.

I have always taken a long view on the market. I protect the income and funds I will need for short term income and I leave my other investments alone. If you have money on the sidelines and the market reacts poorly over the closing months of this year, either as a reaction to the pandemic or the elections ultimate outcome, maybe you can find an investment bargain, but do it for the long haul or your risk will be high.

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Just when you thought I had covered all the possibilities. No matter who wins the election, we will have the oldest man to ever lead this nation. Both parties need to be looking to the future or the Vice President will have more of an impact on the electorate and the market than the President does. All this means their political leanings will need to be watched more closely than we probably have done in this election. After all, Presidential age has increased the possibility of the VP becoming the President.