MERITAS ADVISORS

FINANCIAL
Insights

December

SECURE
After All?

You can be forgiven if you have forgotten the mild hoopla in the press last May, when the U.S. House of Representatives passed something called the SECURE Act (Setting Every Community Up for Retirement Enhancement) by a 417 to 3 margin. It seemed at the time like the measure would sail through the Senate—until it became clear that the Senate was not planning to take up any House-passed legislation in 2019.

That was then. Now it looks like the Senate is reconsidering its position, and planning, well, not to pass the SECURE act as standalone legislation, but to allow it to be attached to the December 20 fiscal 2020 spending authorization bill.

What does that mean for financial consumers? Among other things, the new law would increase the tax credit for small businesses to set up new retirement plans for their employees, from $500 to $5,000. It would allow small employers to automatically enroll their employees, and allow smaller companies to create multiple employer plans with other companies in the area, reducing the obstacles to offering 401(k) and other retirement plans. A great deal of insurance industry lobbying support went into another provision that would require all qualified plans to show participants how they can convert their existing balances into "lifetime income" through an annuity.

Of more substance to many financial consumers is a plan to delay when we all have to take out required minimum distributions from our IRAs from the current age 70 1/2 to age 72, and require people who inherit IRAs to take the money out over a ten-year period, instead of over their lifetimes (the so-called "stretch" provision). This last change has significant tax implications, since currently an IRA inheritor age 25 would only have to take out 1/58th of the money in that year, 1/57th the year after, and so forth for the rest of his/her life. Taking all the money from a large IRA out in the tenth year after inheritance could have potentially severe tax consequences on the unsuspecting inheritor.

Also: for people who are working past age 70 1/2, the bill would allow them to contribute to an IRA. (They cannot now, but surprisingly, at that age they are still allowed to contribute to a Roth IRA.) And the bill would allow families who adopt or have newborn children to take out up to $5,000 from their retirement plan without the usual 10% early distribution penalty.

In all, the SECURE bill has 29 new provisions or major changes in 20 sections. Financial planners will be studying these provisions and how they impact their clients, to see whether it changes their advice on tax and estate planning in the future.

-Bob Veres

Sources:

https://www.napa-net.org/news-info/daily-news/hope-secure-year-end-funding-package

https://www.irs.gov/publications/p590b

https://www.forbes.com/sites/jamiehopkins/2019/05/24/8-major-ways-the-secure-act-could-impact-your-retirement-plan/#532458953437

The market at a glance

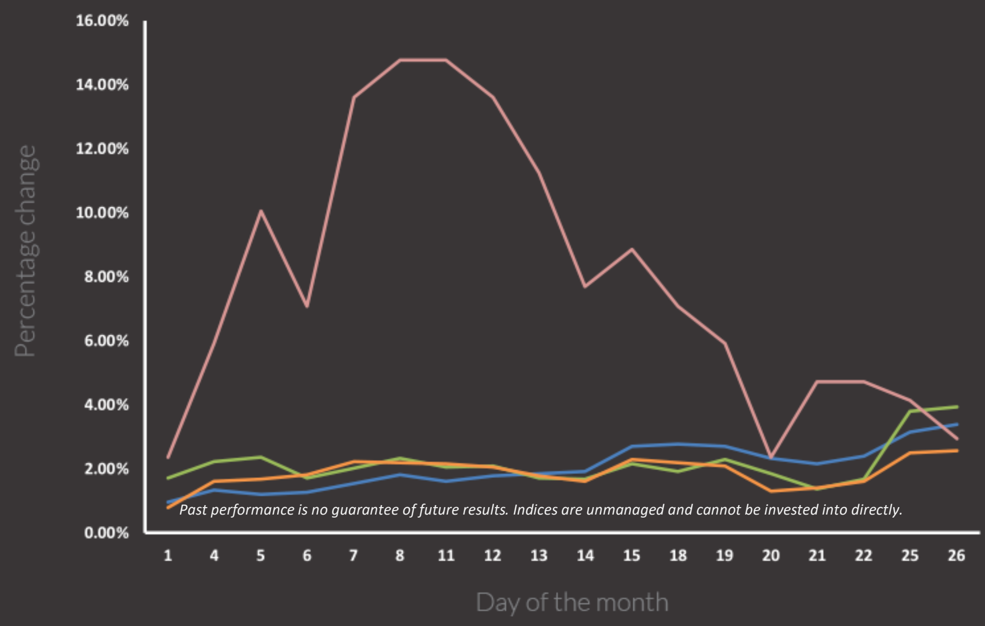
November

U.S. Large Cap
(S&P 500)
3,140.98 (3.40%) ▲

U.S. Mid/Small
(Russell 2000)
1,624.50 (3.97%) ▲

International Large
(NYSE International 100)
5,636.55 (2.57%) ▲

U.S. Treasuries
(U.S. 10-year Treasury yield rate)
1.78 (5.33%) ▲



The market in action

- Charles Schwab announced that it has entered an agreement to buy rival broker TD Ameritrade in an all-stock deal worth $26 billion. The merger of two of the largest discount brokers will result in a total of $5 trillion in client assets under Charles Schwab management. Shares of Charles Schwab rose eight percent following the news, while TD Ameritrade saw its shares rise 16 percent. The deal is expected to close in the second half of 2020.

- Online payment company PayPal announced it has acquired the popular deal-finding online shopping tool Honey for $4 billion. Shares of PayPal fell roughly two percent following news of the acquisition. The deal, which is the largest ever for PayPal, is expected to close during the first quarter of 2020.

- Shares of the mass media and entertainment conglomerate Disney rose to an all-time high following the strong launch of its new Disney Plus streaming service. Originally projected to obtain 18 million users in its entire first year, Disney Plus attracted 10 million subscribers in just the first day of operation.

- E-commerce company eBay announced plans to sell its ticket sales platform StubHub to the Switzerland-based ticket exchange company Viagogo for $4.05 billion. Shares of eBay were trading up one percent following the announcement. The sale is expected to close during the first quarter of 2020.

Closing out 2019: Year-end financial checklist

With the end of the year just around the corner, now is great time to look back at what has happened over the past 12 months and ensure everything is in order for the new year. Here are some important items to review before moving into 2020.

Retirement accounts

- [ ] **If you are retired, make sure you have taken all required minimum distributions (RMDs).**
  RMDs may be one of the most important items to review when going over your finances at the end of the year. Standard IRAs require these distributions be taken annually after the year you turn 70 ½; standard 401(k)s require them annually after you retire or turn 70 ½ (whichever is earlier). Failure to take an RMD will trigger a 50 percent excise tax on the value of the RMD.

- [ ] **Max contributions to an IRA and employer retirement plan for the year.**
  Both IRAs and 401(k)s have annual contribution limits. If you find you have excess savings and have not reached your annual limit, it may be a good idea to make additional contributions. Similarly, you may also consider making greater monthly contributions to your accounts next year, spreading out the cost of contribution. The deadline for IRA contributions for 2019 is April 15 of 2020; 401(k) deadlines may be restricted to the calendar year, depending on your employer.

- [ ] **Consider converting a traditional IRA to a Roth IRA.**
  Did you have a good tax year? Now may be an opportune time to convert a portion (or all) of your traditional IRA to a Roth IRA and pay your taxes at a lower rate. It is important to understand, however, that Roth accounts have contribution limits placed on them, so keeping a traditional IRA may still be beneficial. Before making any changes, consider seeking the help of a professional accountant who can help you with this conversion and calculate your new tax liability.

Investments

- [ ] **Considering "locking-in" losses on investments to help diminish taxes on capital gains.**
  If your losses exceed your gains for this year, you can use the losses to reduce up to $3,000 of taxable income (or $1,500 for those married filing separately). If your total losses surpass $3,000, you can roll over excess losses to offset gains in another year. If you have losses from a previous year, remember to calculate how they affect either gains or losses from this year.

- [ ] **Check to make sure you did not make (or plan on making) any "wash sales."**
  A wash sale is the sale of an asset followed by a repurchase of a similar asset within 30 days. The IRS does not allow capital losses on wash sales. If you have already made a wash sale, do not plan on the capital losses being available for tax use this year.

- [ ] **Check to see when you last rebalanced your portfolio.**
  Although you do not need to update your investments every year, many people go far too long without making necessary adjustments as they age.

Income tax

- [ ] **Review your tax withholdings.**
Did you have a major life change (employment change, marriage/divorce, a new child) that may impact your income tax? Check to make sure your tax withholdings have been properly adjusted. Having low withholdings can lead to tax penalties, while having too high of withholdings prevents you from accessing your money until your tax return is filed.

- [ ] **Estimate your AGI.**
Determine your adjusted gross income either on your own or with the help of your tax preparer. Your AGI will help determine your tax bracket, which you'll need for investment and retirement planning.

Family funding

- [ ] **Check your flexible savings account (FSA).**
The government only permits a $500 annual rollover in an FSA; any excess funds disappear if unused by the end of the year. If you have extra money in your FSA, you may want to schedule necessary medical or dental procedures before the end of the year.

- [ ] **Check your health savings account (HSA).**
HSA funds do not disappear at the end of each year like with an FSA; however, many with few medical needs discover money accumulating in their HSAs much faster than they are using it. Consider reducing your contributions to your HSA if your account has reached a comfortable amount and you know of better uses for your money.

- [ ] **Consider contributions to a 529 plan to fund your children's/grandchildren's education.**
529 plans allow you to contribute to a tax-free account that may be used to pay for qualifying secondary education expenses. *(Investors should consider investment objectives, risks, charges, and expenses associated with 529 plans before using them. Information about 529 plans is available in their issuers' official statements.)*

Giving

- [ ] **Donate to charity as a way to reduce taxes.**
You can lower taxable income by 50 percent with a gift to a public charity or by 30 percent with a gift to a private foundation. If your gift exceeds these limits, you can roll over the excess deduction for up to five years.

- [ ] **Reduce your estate through gifts.**
You are permitted to give up to $15,000 ($30,000 for married couples) a year per recipient as an untaxed gift. Gifts above this value will consume part of your lifetime gift tax exemption amount ($11,400,000 in 2019). If a gift directly funds education tuition or pays for qualified medical expenses, it will go untaxed no matter what the value.

Meritas Advisors, LLC
info@meritasadvisors.com
meritasadvisors.com

4040 Civic Center Dr., Suite 200
San Rafael, CA 94903
415-690-8547