MANAGEMENT & *TAX CONCEPTS*

FALL 2020

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The CARES Act provides some retirement plan flexibility

If you're like many Americans, you plan carefully to save enough money for a comfortable retirement. But events outside of your control can affect your retirement plans.

The COVID-19 crisis is such an event. For example, if you're experiencing economic hardship due to the pandemic you might need to withdraw funds from your retirement accounts this year and could face penalties for doing that, in addition to hurting your retirement nest egg. But the Coronavirus Aid, Relief and Economic Security (CARES) Act might provide some relief. Signed into law in March, the CARES Act is intended to mitigate the economic damage caused by COVID-19.

TAX RELIEF ON CERTAIN DISTRIBUTIONS

If you've been adversely affected by COVID-19, the CARES Act may allow you to withdraw up to $100,000 from your retirement plans in 2020 in a tax-advantaged way. First, if your withdrawal qualifies, you can spread out any tax liability over three years *without interest or a late-payment penalty*.

Alternatively, you can recontribute the funds back into your plans within three years of making the withdrawals and *not* owe any tax on the withdrawals. That's true even if the action pushes your total contribution for the year above the annual limit. The recontributions can be made in a lump sum or a series of payments.

Qualified withdrawals also are *exempt* from the 10% penalty that applies to most early retirement account withdrawals (generally withdrawals before age 59½).

For a withdrawal to qualify for all these tax benefits, at least one of these conditions must apply:

- You, your spouse or a dependent must have tested positive for COVID-19.
- You're experiencing adverse financial consequences due to your inability to work during the pandemic.
- Your pay or self-employment income has been reduced due to COVID-19.
- You're unable to work due to COVID-19-related child care issues.
- You own a business that's been forced to close or reduce hours due to the health crisis.
- You've had a job offer rescinded or the start date for a new job delayed due to COVID-19.

For taxpayers who qualify, a retirement plan withdrawal can provide much-needed financial relief. But consider the long-term consequences carefully. Even if you avoid taxes by returning the funds to your account, the loss of tax-deferred growth on those funds — even for two or three years — can have a significant negative impact on your retirement nest egg.

HIGHER LIMITS FOR RETIREMENT PLAN LOANS

The CARES Act doubles the amount of money that can be borrowed from qualified retirement plans from $50,000 to $100,000 for loans taken out on or before September 22, 2020. So, if you've needed to borrow money from your plans due to a financial hardship, you've had access to more funds, assuming your plan sponsor allows loans.

You also can delay the repayment of retirement plan loans due through the end of this year for up to one additional year. Plan loans will be re-amortized on January 1, 2021, to include the suspension period with a new repayment starting date.

More legislative relief

In addition to retirement plan flexibility, the Coronavirus Aid, Relief and Economic Security (CARES) Act also provides relief for student loan borrowers and homeowners. Individuals can stop making payments of federal student loans through September 30, 2020, without incurring penalties or late fees. No interest will accrue on these loans during this period.

Another break: Homeowners with federally backed mortgages who qualify can request loan forbearance for up to 180 days, with an additional extension of another 180 days. This request can be made regardless of any delinquency status and without incurring penalties, fees or interest.

SUSPENSION OF RMDs

Generally, retirement account owners over age 70½ (72 if you didn't turn 70½ by December 31, 2019) and owners of an inherited retirement account (unless inherited from a spouse) must take required minimum distributions (RMDs) each year. For taxpayers who would normally be subject to RMDs, but prefer not to make withdrawals from their retirement plans this year, the CARES Act provides valuable relief. It suspends RMDs for 2020.

By skipping your RMD, not only will you save money on taxes this year, but you also could have more time to potentially recover losses suffered due to market volatility. In addition, because 2020 RMD amounts are based on the account's value on December 31, 2019, if your account's value has declined substantially since that date, taking an RMD would force you to sell a disproportionate amount of your retirement assets at depressed values.

Keep in mind that, if you had any withholding on your RMD, you'll need to pay it back, even though you might feel that you didn't receive it. For instance, suppose you took your $50,000 RMD and, after the $10,000 that was withheld for income taxes, you received $40,000. While you might believe, quite logically, that you only received $40,000, for tax purposes the distribution was $50,000. So, to avoid being taxed on the distribution, $50,000 must be returned to your account. The $10,000 isn't lost; you'll claim the withholding when you file your 2020 tax return.

Note that the payback is not an all-or-nothing proposition. Therefore, if you have spent some of the distribution or otherwise don't have the necessary liquidity to pay back the full $50,000, don't fret. For instance, suppose you're able to pay back $30,000. The taxable amount will be reduced to $20,000.

The suspension applies to traditional IRAs, 401(k)s, profit sharing and money purchase pension plans, and 403(a), 403(b) and 457(b) plans. June guidance from the IRS allowed individuals who already took a 2020 RMD to return the money to their account by August 31, 2020. But the deadline could possibly be extended. Check with your tax advisor for the latest information.

SEEK ADVICE

The CARES Act contains numerous other provisions that could impact your personal finances. Therefore, you should talk to your professional advisors about how they could affect your situation. •

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3 year-end tax planning tips

The year 2020 has been a tumultuous one, and an unusual one for taxpayers. As the year draws to a close, year-end tax planning may be more important than ever before. Here are three strategies to consider. One or more may fit into your tax plan.

1. MAKE SUBSTANTIAL GIFTS TO YOUR FAMILY

Gifts to family members can help them through difficult financial times while allowing you to make the most of the record-high gift and estate tax exemption amount. The Tax Cuts and Jobs Act of 2017 temporarily doubled the exemption from $5 million to $10 million, indexed for inflation, through 2025. This year, it stands at $11.58 million — or an effective exemption of $23.16 million for married couples.

Now may be the time to take advantage of the current exemption amount by transferring substantial amounts of wealth tax-free and shielding those gifts from future gift or estate taxes. Even if your net worth is well within the exemption, this may be a wise strategy because there's no guarantee that a future administration or legislature won't slash the exemption amount, possibly before 2025. For example, in recent years lawmakers have proposed reducing the exemption to $3.5 million or even as low as $1 million.

2. DONATE TO CHARITY

The CARES Act sweetened the tax benefits of philanthropy for certain gifts made by the end of 2020. For this year only, *cash* gifts to *public charities* are deductible up to 100% (up from 60%) of adjusted gross income (AGI). Keep in mind that these deductions may be reduced by other types of donations, such as gifts of property other than cash or gifts to donor-advised funds or private foundations. So, plan carefully to achieve your charitable goals at the lowest possible tax cost.

The act also established a new "above-the-line" charitable deduction (in other words, a deduction from gross income in calculating AGI) of up to $300

for nonitemizers. This benefit also is limited to cash gifts to public charities.

3. DO A ROTH CONVERSION

Have you been thinking about converting a traditional IRA, 401(k) or other eligible retirement account into a Roth account? If so, now may be the ideal time to pull the trigger. Roth accounts offer several attractive benefits, such as tax-free withdrawals of both contributions and earnings and no minimum distribution requirements during the owner's lifetime.

When you do a Roth conversion, the amount you convert is fully or partially taxable, so you'll need to be prepared for a larger tax bill this year. But if the value of your account is depressed as a result of recent market volatility, or a decline in income has pushed you into a lower tax bracket, there may be no better time to make the switch.

If a Roth conversion isn't right for you, perhaps a contribution to a Roth IRA is appropriate. Though not technically a year-end decision (because you have until April 15, 2021, to make a contribution for 2020), it's worth considering. Be aware that, unlike contributions to traditional retirement accounts, contributions to a Roth account aren't tax-deductible.

The CARES Act sweetened the tax benefits of philanthropy for certain gifts made by the end of 2020.

To determine whether a Roth is right for you, you'll need to weigh the benefits of tax-free withdrawals in the future against the benefits of deductible contributions now. There are other factors that come into play but, as a general rule, people who expect their tax rates to be higher when they withdraw retirement funds are better off with a Roth. Consult with your tax advisor about your particular situation. •

Want to trade?

In a down economy, bartering might be worth considering

Remember when you were a child. You didn't have much cash, so when you wanted something a friend possessed, you'd find something you owned and offer it up with an eager "Trade you!" Well, trading, or bartering, has grown up.

Businesses sometimes find trading an item or a service to be beneficial. And bartering, or exchange, websites have gained sophistication over the years. A company can exchange almost anything without money changing hands. The National Association of Trade Exchanges asserts that, in addition to conserving cash, bartering can increase exposure inside and outside of your community, expand your purchasing power, and help to move overstocked inventory.

CHOOSING YOUR PROCESS

When it comes to initiating the bartering process, you have two options. You can barter directly with another business if what you have to offer each other seems of mutual benefit. This approach limits the variety of goods and services you can receive in a transaction. And a certain amount of trust is required because there's no third party involved to ensure the timely delivery of goods or services from either side.

benefit by forming new business relationships with their trading partners.

The qualifications for what constitutes bartering have broadened to include several options, above and beyond simply trading goods or services. With the help of an exchange company, for example, you can turn liquid assets into trade credits by selling excess inventory to another market. You can then use your trade credits, possibly along with cash, to purchase business needs. One example would be an office supply store exchanging an office printer with a cleaning service for a month of work.

By turning excess inventory or underused services into trade credits and using those credits to pay for items your business requires, you can keep your operations running at full speed without putting forth cash you can't afford to spend. Plus, with the help of the exchange company, a business can put its credits toward other expenses — for example, hotel accommodations for a business trip. With the flexibility trade credits provide, the options for what your company can acquire in exchange for its goods or services are almost limitless.

Alternatively, you can turn to an exchange company that will consult with you to determine your company's needs and then do the legwork. This can give you access to thousands of companies in a variety of industries and markets.

Some companies join a barter exchange for the increased marketing and exposure opportunities as well as the trading possibilities. Some members

The qualifications for what constitutes bartering have broadened to include several options, above and beyond simply trading goods or services.

TAXES, STILL A CERTAINTY

Keep in mind that, even though bartering can save you money on various expenses, taxes are still as certain as ever. Barter deals are treated just like cash transactions, so you'll have to report whatever you trade as income and the goods or services you acquire as expenses.

The IRS views barter credits as real dollars, so you won't receive any additional tax benefits or penalties if you use a barter exchange. However, you may be able to contribute barter credits to a charity, which could allow for a tax deduction. •

Temporary allowance of NOL carrybacks creates refund opportunity

For businesses that experience losses this year, a provision of the Coronavirus Aid, Relief and Economic Security (CARES) Act may deliver a welcome cash flow boost. The act temporarily lifts restrictions on net operating loss (NOL) carrybacks. This allows businesses to offset losses against income earned in previous years and claim a tax refund.

NO LOOKING BACK

At one time, NOLs could be carried back up to two years and forward up to 20 years and offset up to 100% of taxable income. But then the Tax Cuts and Jobs Act (TCJA) changed the rules. It prohibits NOL carrybacks, allows NOLs to be carried forward indefinitely and limits NOL deductions to 80% of taxable income.

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CARES ACT TO THE RESCUE

To assist cash-strapped businesses, the CARES Act temporarily reinstates NOL carrybacks, extends the carryback period to five years and suspends the 80% limit. This relief is available for losses arising in tax years starting after December 31, 2017, and before January 1, 2021 — in other words, for calendar-year businesses, losses arising in 2018, 2019 or 2020.

NEXT STEPS

If your business will experience an NOL in 2020 or had NOLs in recent tax years, consult your tax advisors to discuss strategies for making the most of those losses. For many businesses, carrying NOLs back to previous years (particularly pre-TCJA years when tax rates were higher) will generate substantial refunds.

However, depending on your tax situation, waiving NOL carrybacks and instead carrying losses forward might produce greater tax benefits. Keep in mind, though, that the 80% limit will return for tax years starting after December 31, 2020.

It's also important to consider the impact of the technical correction to the TCJA, included in the CARES Act. If you're on a fiscal year and had an NOL for your tax year ending in 2018, you may now be able to carry that loss back up to two years. •

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