Keystone Financial Partners

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Winter 2020

Winter Update 2020

THE SETTING EVERY COMMUNITY UP for RETIREMENT ENHANCEMENT (SECURE) ACT

On December 20, 2019, the SECURE Act was signed into law. The SECURE Act contains 29 provisions, encompassing many aspects of financial planning and retirement savings. Once treasury regulations are released, nuances in interpreting this new law will become clearer. Until then, individuals are left to interpret the law's effects based on the language of the law itself. Enclosed in this newsletter is an article detailing what the SECURE Act entails and who it affects, as well as provide suggestions on how to plan for the changes that have been instituted.

We are reviewing the SECURE Act in detail and how these IRA rule changes will impact our clients. We will be in touch with you if you are impacted and changes should be made to your accounts. If you have any questions about this new law, feel free to contact our office.

2020 FINANCIAL RESOLUTIONS

The New Year is here, bringing a fresh opportunity to consider your goals. For 2020, we encourage you to make this the year you really own your financial life. Three key steps make you more likely to achieve what you set out to accomplish:

Written Goals: Define and record what you want. When defining your financial resolutions, ask yourself which priorities matter most to you and would help create the greatest comfort in your life.

Commitment: Outline specific action items for each day. Outline the actions you will take to help make your dreams a reality. Create and maintain your commitment to the goal by building a clear strategy for bringing it life.

Accountability: To help increase your chances of achieving your 2020 financial resolutions, share your plan with someone else, such as a spouse, family member, or friend. Make sure you give them a detailed account of exactly what you want to achieve. Then keep them in the loop on your progress.

IT'S TAX TIME. LOOKING FOR YOUR TAX DOCUMENTS?

If you have an account held at National Financial Services, you can expect your tax documents to be available online between Jan 25-Feb 15, and to be mailed shortly thereafter. NFS filed for a 30-day extension from the IRS that will permit the generation of some 1099 tax forms after February 15. Not all issuers send final information to NFS in time to meet the February standard IRS 1099 mailing deadline. NFS uses this extension to ensure that the information on the tax documents you receive is accurate, which, in turn, reduces the need to amend your tax return.

You may receive one of the following documents:

Non-Retirement Accounts: Consolidated Form 1099 (1099-B, 1099-DIV, 1099-INT)

Retirement Accounts: Form 1099-R, Form 5498

Please call our office if you have any questions regarding your tax documents.

9TH ANNUAL SHRED EVENT

One week after tax-day, on April 22, plan to come by our office for a fun spring event. Bring your confidential documents to our office to take advantage of our professional shredding services. Stay and enjoy some barbecue. See the enclosed flyer for more details on this fun event!

When: Wednesday, April 22, 11:30 am – 2 pm

Where: Our Office at 1255 Crescent Green, Suite 440, Cary

RSVP to Tami at tami@keystonefinancialpartners.com or 919-463-0018.

Please Note: If you can't make it to this shred event, our clients are always welcome to drop off documents to be shred anytime at our office. We have a regular service that picks up and shreds confidential documents.

Key Retirement and Tax Numbers for 2020

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2020.

Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,500 in compensation in 2020 (up from $19,000 in 2019); employees age 50 and older can defer up to an additional $6,500 in 2020 (up from $6,000 in 2019).
- Employees participating in a SIMPLE retirement plan can defer up to $13,500 in 2020 (up from $13,000 in 2019), and employees age 50 and older can defer up to an additional $3,000 in 2020 (the same as in 2019).

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,000 in 2020 (the same as in 2019), with individuals age 50 and older able to contribute an additional $1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA phases out for the following modified adjusted gross income (MAGI) ranges:

	2019	2020
Single/head of household (HOH)	$64,000 - $74,000	$65,000 - $75,000
Married filing jointly (MFJ)	$103,000 - $123,000	$104,000 - $124,000
Married filing separately (MFS)	$0 - $10,000	$0 - $10,000

Note: *The 2020 phaseout range is $196,000 - $206,000 (up from $193,000 - $203,000 in 2019) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.*

The modified adjusted gross income phaseout ranges for individuals to make contributions to a Roth IRA are:

	2019	2020
Single/HOH	$122,000 - $137,000	$124,000 - $139,000
MFJ	$193,000 - $203,000	$196,000 - $206,000
MFS	$0 - $10,000	$0 - $10,000

Estate and gift tax

- The annual gift tax exclusion for 2020 is $15,000, the same as in 2019.
- The gift and estate tax basic exclusion amount for 2020 is $11,580,000, up from $11,400,000 in 2019.

Standard deduction

	2019	2020
Single	$12,200	$12,400
HOH	$18,350	$18,650
MFJ	$24,400	$24,800
MFS	$12,200	$12,400

Note: *The additional standard deduction amount for the blind or aged (age 65 or older) in 2020 is $1,650 (the same as in 2019) for single/HOH or $1,300 (the same as in 2019) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

Alternative minimum tax (AMT)

	2019	2020
Maximum AMT exemption amount		
Single/HOH	$71,700	$72,900
MFJ	$111,700	$113,400
MFS	$55,850	$56,700
Exemption phaseout threshold		
Single/HOH	$510,300	$518,400
MFJ	$1,020,600	$1,036,800
MFS	$510,300	$518,400
26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount		
MFS	$97,400	$98,950
All others	$194,800	$197,900
*Alternative minimum taxable income		

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An asset's tax basis can be important when deciding whether to make gifts now or transfer property at your death. When you make a gift of property during your lifetime, the recipient generally receives your basis in the property. When you transfer property at your death, the recipient generally receives a basis equal to the fair market value of the property as of the date of your death. The difference can substantially affect the amount of taxable gain when the recipient sells the property.

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Estate Planning: Consider the Tax Basis of Gifted or Inherited Property

Tax basis can be important when deciding whether to make gifts now or transfer property at your death. This is because the tax basis of the person receiving the property depends on whether the transfer is by gift or at death. This, in turn, affects the amount of taxable gain subject to income tax when the person sells the property.

What is tax basis?

The tax basis of an asset is used when determining whether you have recognized a capital gain or loss on the sale of property for income tax purposes. (Gain or loss on the sale of property equals the difference between your adjusted tax basis and the amount you realize upon the sale of the property.) When you purchase property, your basis is generally equal to the purchase price. However, there may be some adjustments made to basis.

What is the tax basis for property you receive as a gift?

When you receive a gift, you generally take the donor's basis in the property. (This is often referred to as a "carryover" or "transferred" basis.) The carryover basis is increased — but not above fair market value (FMV) — by any gift tax paid that is attributable to appreciation in value of the gift. (Appreciation is equal to the excess of FMV over the donor's basis in the gift immediately before the gift.) However, for the purpose of determining loss on a subsequent sale, the carryover basis cannot exceed the FMV of the property at the time of the gift.

Example: *Say your father gives you stock worth $1,000 and the gift incurs no gift tax. He purchased the stock for $500. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is $500. If you sold the stock for $1,000, you would have gain of $500 ($1,000 received minus $500 basis).*

Now assume that the stock is only worth $200 at the time of the gift and you sell it for $200. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is still $500, but your basis for determining loss is $200. You do not pay tax on the sale of the stock. You do not recognize a loss either. In this case, it would have been better if your father had sold the stock (and recognized the loss of $300 — his basis of $500 minus $200 received) and then transferred the sales proceeds to you as a gift.

What is the tax basis for property you inherit?

When you inherit property, you generally receive an initial basis in property equal to the property's FMV. The FMV is established on the date of death or on an alternate valuation date six months after death. This is often referred to as a "stepped-up" basis, since basis is typically stepped up to FMV. However, basis can also be "stepped down" to FMV.

Example: *Say your mother leaves you stock worth $1,000 at her death. She purchased the stock for $500. Your basis in the stock is a stepped-up basis of $1,000. If you sold the stock for $1,000, you would have no gain ($1,000 received minus $1,000 basis).*

Now assume that the stock is only worth $200 at the time of your mother's death. Your basis in the stock is a stepped-down basis of $200. If you sold the stock for more than $200, you would have gain.

Make gift now or transfer at death?

As the following example shows, tax basis can be important when deciding whether to make gifts now or transfer property at your death.

Example: *You purchased land for $25,000. It is now worth $250,000. You give the property to your child (assume the gift incurs no gift tax), who then has a tax basis of $25,000. If your child sells the land for $250,000, your child would have taxable gain of $225,000 ($250,000 sales proceeds minus $25,000 basis).*

If instead you kept the land and transferred it to your child at your death when the land is worth $250,000, your child would have a tax basis of $250,000. If your child sells the land for $250,000, your child would have no taxable gain ($250,000 sales proceeds minus $250,000 basis).

In addition to tax basis, you might consider the following questions:

- Will making gifts reduce your combined gift and estate taxes? For example, future appreciation on gifted property is removed from your gross estate for federal estate tax purposes.
- Does the recipient need a gift now or can it wait? How long would a recipient have to wait until your death?
- What are the marginal income tax rates of you and the recipient?
- Do you have other property or cash that you could give?
- Can you afford to make a gift now?

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Should I sign up for an identity theft protection service?

Unfortunately, data breaches are now normal, everyday occurrences in our society. As a result, many companies are offering services to help you protect your personal information. If you want an extra layer of protection, an identity theft protection service is a good option. However, the term "identity theft protection service" can be misleading. The reality is that no one service can safeguard all of your personal information from identity theft. What most of these companies actually provide are identity theft monitoring and recovery services.

A monitoring service will watch for signs that an identity thief may be using your personal information. This typically includes tracking your credit reports for suspicious activity and alerting you whenever your personal information (e.g., Social Security number) is being used. The recovery portion of the service usually helps you deal with the consequences of identity theft. This often involves working with a case manager to help resolve identity theft issues (e.g., dealing with creditors or placing a freeze on your credit report). And depending on the level of protection you choose, the service may also provide reimbursement for out-of-pocket expenses directly associated with identity theft (e.g., postage, notary fees) and any funds stolen as a result of the identity theft (up to plan limits). Identity theft protection services usually charge a monthly fee. Entry-level plans that provide basic protection (e.g., Social Security number and credit alerts) can cost as little as $10 a month, while plans that offer more advanced features (e.g., investment account monitoring) will cost more.

Keep in mind there are steps you can take on your own to help protect yourself against identity theft, such as:

- Check your credit report at least once a year for errors
- Periodically review your bank and debit/credit card accounts for suspicious charges/activity
- Obtain a fraud alert or credit freeze if necessary
- Have strong passwords, use two-step authentication, minimize information sharing, and be careful when shopping online

Do gift cards expire?

Gift cards are popular and convenient gifts (to give and receive) for many occasions. But is it possible for gift cards to expire before they're used?

The short answer is yes: Gift cards can expire. But federal laws help protect consumers by regulating when gift certificates and cards expire. The Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act) established fair and transparent practices related to the issuance of credit, restricting what credit card companies can charge consumers. It also enacted regulations to limit fees, expiration dates, and unexpected costs from gift cards. The rules limit dormancy, inactivity, and service fees on gift cards.

1. Dormancy fees cannot be imposed unless the card has been unused for at least one year
2. Only one dormancy fee can be charged each month after the first year
3. The consumer must be given clear and prominent disclosures about fees

The CARD Act also states that gift cards cannot expire until five years after the date the card was purchased or the date money was last loaded onto the card.

While the CARD Act set consumer protections at the federal level regarding gift certificates and cards, it left room for regulation at the state level. Many states have their own gift card laws that can take precedence over federal gift card laws. Find out whether your state has passed any gift card laws by reviewing the chart located on the National Conference of State Legislatures website.

Even though you're now familiar with the basic rules and regulations associated with gift card expiration, you might still discover that a gift card you've given and/or received has expired because it was misplaced or forgotten. As a precaution, try to use any gift cards that you receive as soon as possible. This will help ensure that they retain their full value. Read the terms and conditions associated with your gift cards to find out whether they have any fees, and when those fees might be applied.

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