The Light

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2020 Tax Planning Opportunities

By Chris Bevington, CPA, MTAX, CFP®, Investment Advisor Rep.

The RMD age increased from age 70 ½ to age 72
Individuals who turned 70 ½ in 2019 or earlier will still fall under the old rules, meaning required minimum distribution (RMDs) are still required for these individuals, (*although please read below for the 2020 one-year CARES Act exception*). For those who turn 70 ½ in 2020 or later, you are not required to take RMDs until age 72. For these individuals, the first RMD is required by April 1st of the year following your 72nd birthday. This gives taxpayers the option of delaying RMDs, assuming there are other resources available to cover living expenses. Delaying distributions can prove beneficial to those in higher tax brackets, while individuals in lower brackets may benefit more by taking current distributions to keep *future* tax bills from spiking. We recommend tax planning for those who own tax-deferred accounts (IRAs, 401Ks) to consider the best options.

The CARES ACT waives *ALL* Required Minimum Distribution requirements for 2020
Whether you fall under the old rules (*turned 70 ½ in 2019 or prior*) or the new rules (*turn 70 ½ in 2020 or later*), the CARES ACT eliminates *ALL* RMD requirements for 2020. And if you've already taken a distribution that would have been an RMD in 2020, there's a new IRS Notice that allows you to repay the distribution back into the IRA by August 31, 2020.

The SECURE ACT eliminated the age limit for making traditional IRA contributions
Prior to this law change, people over age 70 ½ were unable to contribute to a traditional IRA. This change eliminates the age limit restriction, as long as the individual has earned income (wages or self-employment income). Eliminating the age restriction creates a unique situation where you could be contributing to your IRA while also having to take RMDs from it. To continue saving after age 70 ½ where RMD requirements are not a concern, individuals may also consider contributing to a Roth or brokerage account. Like the Traditional IRA, Roth contributions also require earned income to qualify.

The SECURE ACT eliminates "Stretch IRA" for non-spouse beneficiaries
Under prior rules, non-spouse beneficiaries of inherited retirement accounts had the option of "stretching" distributions over their expected lifetimes. The new law requires such individuals to fully distribute those assets within

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New Investment Disclosures for Retail Investors

By Tim Rowsey, CPA, Investment Advisor

The Securities and Exchange Commission has instituted new rules requiring investment advisers and broker-dealers to deliver retail investors a client relationship summary (form CRS) that provides information about the firm. This information is intended to help retail investors understand the way that investment professionals are paid and also potential conflicts of interest of various types of relationships.

Part of the reasoning behind these new disclosures is to help investors understand the various ways that they can interact with an investment professional. The two primary types of investment professionals are independent investment advisors and registered representatives of broker-dealers. While to the consumer these two professionals may appear identical, they are governed by different rules and requirements in their relationships with investors.

Investment advisors serve as fiduciaries to their clients. This means that they have a duty to put client interests first. Any potential conflict of interest is disclosed to clients and all recommendations for investments must be in the client's best interest. Registered representatives of a broker-dealer work under a different standard called the "suitability" standard. They can sell a product to a client as long as it is suitable, even if there is a lower cost alternative for the client. They also do not always disclose all fees associated with an investment. What is best for the client could conflict with what benefits the salesperson. The most common registered representatives in our area are part of financial franchises and also many life insurance agents. To confuse things even more, some individuals work under both arrangements. This makes it difficult for an investor to know the motivation of the professional with which they are working.

The new CRS form contains information about fees, costs, conflicts and disciplinary history. There are also several suggested questions that an investor may want to ask of their investment professional. Our CRS form can be found on our website and will also be sent to all clients with their second quarter statements. If you have questions about this new form or how you work with us or other investment professionals, please give us a call. At Lighthouse Wealth Management we serve as fiduciaries for our clients and always put their interests first. We would love to help educate you on this and answer any questions that you might have. ■

Tax Planning (continued from page 1)

10 years. There is no annual distribution requirement for inherited retirement accounts, meaning heirs can distribute the assets any way they choose, as long as all assets have been fully distributed before the end of the 10th year. If funds are not fully distributed after the 10th year, the remaining funds are subject to a 50% tax penalty.

The new rule does not affect existing inherited accounts- those whose original owner died in 2019 or prior. The SECURE Act only applies to retirement accounts whose original holder died in 2020 and beyond. There is also an exemption to this new rule for those who qualify. Referred to as *"eligible designated beneficiaries,"* those exempt include the surviving spouse, minor children, disabled individuals, those chronically ill, and beneficiaries who are less than 10 years younger than the original account holder (a sibling, for example).

Qualified Charitable Distributions (QCDs) can still be made at age 70 ½
Although the SECURE Act changes the age at which RMDs must be made, the law made no such change to the age at which Qualified Charitable Distributions (QCDs) may begin. Even though IRA owners are not required to start taking RMDs from their IRAs until age 72, they will still be able to make QCDs from their account once they have reached the age of 70 ½. Making pre-RMD QCDs will not impact future RMD amounts, beyond reducing the IRA balance by the amount of the QCD when calculating future RMDs. However, for those individuals who are charitably inclined, QCDs are still an attractive way to do so, especially for those taxpayers who lack deductions to itemize.

Qualified Charitable Distributions (QCDs) - Making charitable donations from your IRA
Because of the higher standard deduction that came from 2018 Tax Reform, fewer taxpayers benefit from itemizing. For taxpayers age 70 ½ or older, there is another option that may prove to be just as beneficial. A QCD is an otherwise taxable distribution from an IRA that is paid directly from the IRA to a qualified charity. Each person can donate the full amount of his or her RMD, up to a maximum of $100,000 annually, effectively reducing the taxable amount of their mandatory withdrawal. Such distributions not only lower taxable income, they also have the potential advantage of decreasing the taxability of Social Security benefits, as well as potentially reducing future Medicare premiums. It is permissible for QCDs to exceed RMD requirements, or they may be less than the full amount of minimum required distributions. Be aware, however, that "extra" QCD distributions won't carry over to meet RMDs for future years. If you do take a QCD, be sure to communicate this to your tax preparer, so that he can properly reduce your taxable income. IRA custodians provide 1099s that show total distributions for the year, but the form is lacking in that it does not distinguish when QCDs are made or amounts.

Deductible charitable contributions, even if you don't itemize
The CARES Act introduced a new above-the-line deduction for taxpayers who make qualifying charitable contributions in 2020. Taxpayers who make charitable contributions who do not benefit from itemizing will now qualify for a small tax deduction. The deduction, unfortunately, is limited to just $300, but this is still a welcome change. Although not specifically addressed, it is expected that each spouse of a married couple will be allowed to claim a separate $300 deduction for a total deduction of $600.

Definition of qualified medical expenses has been expanded
Beginning in 2020, the definition of qualified medical expenses for purposes of HSAs, MSAs, and FSAs is expanded to include over-the-counter medications. Qualified medical expenses for such accounts are further expanded to include amounts paid for "menstrual care products."

Home improvement and residential energy tax credits
Homeowners should be aware of federal tax credits for making certain improvements to their homes that are designed to boost energy efficiency. Known as the "*Residential Energy Efficient Property Credit*" solar, wind, geothermal, and fuel cell technology are all eligible. The credit is currently being phased out, and will only apply to home modifications made through the end of 2021, unless renewed by Congress. There are three applicable percentages that can currently be claimed:

- 30% for property placed in service after December 31, 2016 and before January 1, 2020;
- 26% for property placed in service after December 31, 2019 and before January 1, 2021;
- 22% for property placed in service after December 31, 2020 and before January 1, 2022;

If you made energy improvements prior to January 1, 2020 without taking the credit, you would need to file an amended return, but a 30% credit on a geothermal or heat pump would make it worth the slight inconvenience. There are also *"Nonbusiness Energy Property Credits"* that cap at a total combined credit limit of $500 for all tax years after 2005. If you insulated against heat loss or gain, installed energy efficient exterior windows and/or doors, or installed qualifying metal roofs, you may qualify.

"Bunching" tax deductions
With the increased standard deductions created by tax reform, it is estimated that less than 15% of taxpayers had enough deductions to benefit from itemizing in tax year 2019. With this in mind, "bunching" expenses may be a strategy to consider. By timing the payment of certain tax deductions, a taxpayer may be able to bunch itemized deductions in one tax year, and take the standard deduction the next.

The most common itemized tax deductions include property taxes, state and local income taxes, home mortgage interest, charitable contributions, and to a lesser extent, medical expenses. The bunching strategy is most commonly associated with tax payments and charitable deductions, although there may be other opportunities to consider.
Charitable contributions are the most flexible tax deduction for bunching because they are payable at the taxpayer's discretion.

As an example, let's say you normally contribute annually to your church. To bunch your expenses, you would make your normal contributions during the year, and then prepay the entire subsequent year's expected contributions in a current year December lump sum payment. Stated another way, you are doubling up on your church contribution one year and having no charitable deduction for the next.

Property taxes are another example where bunching can make sense. (*Taxpayers need to be aware that state, local and property taxes are capped at $10,000 annually for itemizing, so tax deductions do provide a little less flexibility.*) Property taxes are billed in arrears for the preceding year's expense, and are typically due in January and July. In order to bunch expenses, you would not only pay the "normal" tax bills in the current year. You would also "prepay" the upcoming property tax expense by contacting your local county auditor in mid-to-late December for the amount due. By paying by the end of December, you are "bunching" two years' worth of expense in one tax year and paying none the next.

Here's an example to further illustrate the bunching concept. The 2019 standard deduction for married filing joint was $24,400 ($12,200 for single taxpayers) meaning itemized deductions needed to exceed this amount to provide any tax benefit. In December, 2019 a couple had $20,000 of qualifying itemized deductions, a significant amount, but not enough to exceed the standard deduction. Included in these deductions were $10,000 they had contributed throughout the year to their church, and $3,000 of real estate taxes they had paid in January/July. The couple decided to use the bunching strategy, and by the end of December, 2019 prepaid their $3,000 real estate tax bill coming due in 2020, and also prepaid $10,000 they normally would have planned to contribute to their church in 2020. The $13,000 of prepaid expense increases their 2019 tax year deduction from $20,000 to $33,000, which allowed them to itemize in 2019. By "bunching" in 2019, they were able to take an itemized deduction of $33,000 vs. the $24,400 standard deduction.

In 2020, their itemized tax deductions have been "reduced" because of the prepaid expenses that were included as 2019 tax deductions. Instead of itemizing, they will take advantage of the standard deduction, which in 2020 increased to $24,800. If they so choose, they can bunch expenses again in 2021, and then take the standard deduction in tax year 2022. Their overall cash outflow for these expenses remains the same. But by "bunching" the timing of when they are paid, the couple is able to take better advantage of when they qualify as tax deductions. ■

Compliance Documents

Our Part 2 of Form ADV: Firm Brochure, which provides information about the qualifications and business practices of Lighthouse Wealth Management, as well as our ADV Part 3: Client Relationship Summary are both available on our website **www.lightwealth.com**. To request paper copies contact Cheri Smeltzer at: **419-496-0016 or csmeltzer@lightwealth.com**

Market Recap

How the major indices performed in the 2nd Quarter 2020

DOW JONES INDUSTRIAL AVERAGE
2nd Quarter return 23.3% YTD return -9.6%

S & P 500 COMPOSITE
2nd Quarter return 19.9% YTD return -4.1%

RUSSELL 2000
2nd Quarter return 34.5% YTD return -13.6%

BARCLAYS AGGREGATE BOND
2nd Quarter return 2.9% YTD return 6.1%

*All indices are reported Total Return which includes Dividends

Market Update

By Greg Emmons, CFP®
Investment Advisor Rep.

Huge rebound for equity markets
After one of the worst quarters in the history of the stock market we saw a drastic turnaround with the S&P 500 bouncing back 20%. It appears that March 23rd was the bottom of the selloff. That day the market touched 2,237 and we currently sit at 3,100. The NASDAQ index tells an even more positive story. This collection of tech stocks was up 36.7% for April, May, and June and is now up 12.1% year to date.

Bonds also advance
The Barclays Aggregate Bond Index rose by 2.9% for the quarter. The yield for the US 10 Year Treasury Note hovered between 0.6% and 0.7%. The Federal Reserve has made it very clear they are committed to keeping an easy monetary policy in place for the foreseeable future. It's likely they won't raise interest rates until the end of 2021 or sometime in 2022.

Second Half Outlook
As investors, what we've all experienced over the last few months has been tough. It does serve as a good reminder of the importance of staying invested in the market. If you had been invested in an S&P 500 index fund and sold on March 23rd and went to cash your account would be down 31% for the year. Staying the course is not always easy; it's not supposed to be. There are still plenty of unknowns out there - a second spike of COVID viruses, the impact of social unrest, the presidential election, and weak economic data to name a few. Through all of it though, try to remember that time in the market is way more valuable than timing the market. ■

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To learn more about the benefits of working with an independent advisor go to http://www.findyourindependentadvisor.com.

Lighthouse Wealth Management believes in giving back. We give 10% of our profits to charities, including several local charities and CURE, International. www.cure.org

Our Services

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Helping individuals navigate their financial lives.