Volume V Issue 1

BARKER
FINANCIAL GROUP, INC.
Strategic Wealth Management Advisors

For Your Information

This newsletter is for informational purposes only. It is not to be construed as tax, legal, or investment advice. Information has been gathered from sources believed to be reliable, but individual situations can vary and you should consult with your investment, accounting and/or tax professional.

Be Prepared For Tax Policy To Swing Back

For business owners, professionals, and wealthy families, tax rules are about as favorable as they've been in decades, but the tax policy pendulum could swing back again. Be prepared to make some important financial decisions much sooner than had been expected.

For example, the lifetime tax exemption for gifts made in 2019 is $11,400,000, up from $11,180, 000 in 2018. It doubled over the $5.43 million in effect in 2017 and is scheduled to ratchet higher through 2025, as a result of the enactment of the Tax Cuts & Jobs Act (TCJA). In 2026, the exemption reverts back to the level in effect before the TCJA became effective in December 2018.

That means families should have many years before they would be forced to decide whether to make gifts in 2025 to maximize their exemptions from tax in passing their wealth to family members. The 2025 peak in the exemption amount forces a decision about whether to give assets to loved ones while you're still alive or hold onto your assets and give them away after you die. In 2025, you use the $12-million-plus exemption or lose it, and the exemption reverts back to a much lower amount in 2026 and beyond.

However, the tax policy pendulum — a politically charged issue — could swing in the other direction in the months ahead. Business owners, professionals, and other high-net worth individuals may need to make decisions about gifting assets much sooner. There is no assurance that you will have until the end of 2025 to make this important strategic decision about passing on your family wealth.

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Five Key Factors In Funding A Child's Education

The Tax Cuts And Jobs Act (TCJA) changed funding a child's education significantly. Here are five factors to consider.

1. You can now pay tuition for kindergarten through 12th grade at private, public or religious schools with money saved in tax-advantaged 529 college savings accounts.

2. You now can draw up to $10,000 federally tax-free per student from a 529 plan. While contributions are not deductible, earnings grow free of federal income tax on withdrawals used for qualified school expenses.

3. You are not limited to 529 plans sponsored by your state and can choose from a long list of 529s sponsored by other states.

4. The TCJA axed taxes on alimony payments, so custodial parents should have it easier qualifying for need-based aid.

5. Tax deductions for interest on home equity loans and lines of credit were eliminated. These are major sources of education funding and losing their deductibility may require a change in your college funding plan.

Education tax breaks were boosted overall by the TCJA, but you almost must be a financial professional to navigate the complexities confidently. We are here to answer questions and create a strategic approach.

The New Math Of Renting Out A Vacation Home

If you've ever thought about becoming a landlord, here's an update on recent tax breaks that changed the equation for weighing whether to rent a property or be the sole tenant throughout the year.

If you bought a home in 2018, only the first $750,000 of the mortgage interest is deductible, down from $1 million under the old rules. But a rental property is not subject to these limits.

While the math of renting out your place may not have worked before, you may want to look at it again. Your mortgage could be several million dollars, but you'd still be able to deduct *all* of the interest on it — just as you did before the new law. If you live in the residence for part of the year and rent it out for the rest, you're entitled to a partial break.

Another advantage for rental property owners is that you can now deduct only $10,000 in state and local income tax and property tax annually on a home if you are not renting it out. But if you rent out a property for at least 15 days a year, you can take a deduction on part of the property taxes paid.

A homeowner who pays $12,000 in property levies annually, for example, may deduct only the first $10,000. Renting out that property for three months qualifies you for a deduction on 25% of property taxes paid, or $3,000, and you could separately deduct the other $9,000 in property taxes paid.

Rental property owners also get a break on making home improvements. Under tax reform, landlords may immediately deduct capital spending on equipment and machinery. Gone is the requirement to take the break over many years. If you install a new kitchen in a rental property, for instance, it's deductible all at once.

Becoming a landlord is fraught with issues beyond finances, chief among them: privacy. Letting others invade your personal space literally is no small decision and a very personal one. However, the economics of renting out a vacation home have changed, and you may want to reconsider your options.

In the era of Airbnb, deciding to rent a vacation home requires advice from a professional who understands the strategic tax and financial planning as well as your personal situation. Please give us a call if you have any questions. ●

Opportunity Zone Investment Frenzy Requires Caution

A new provision in the tax law for the first time in 2018 is leading to a frenzy of tax-driven investment products to be promoted to affluent investors, but caution is wise.

Investors can defer paying tax on large capital gains or eliminate gains taxes entirely by investing in one of more than 8,000 places across the country designated under federal law as Opportunity Zones (OZ). The lucrative new tax-driven investments are being promoted by Wall Street firms, which already has prompted warnings in the press about the sudden investment fascination.

With an OZ investment, a reinvested capital gain is tax-deferred, putting an additional 15% or 20% more into your OZ investment. You don't have to pay the gains tax until you sell your interest in the opportunity zone investment. If you stay in the fund for five years, you pay tax on only 90% of your delayed capital gains. Hold for seven years, and you pay tax on 85% of the gains. And if you hold it for 10 years, the appreciation on the OZ investment is tax-free when you exit the fund — assuming the investment has increased in value.

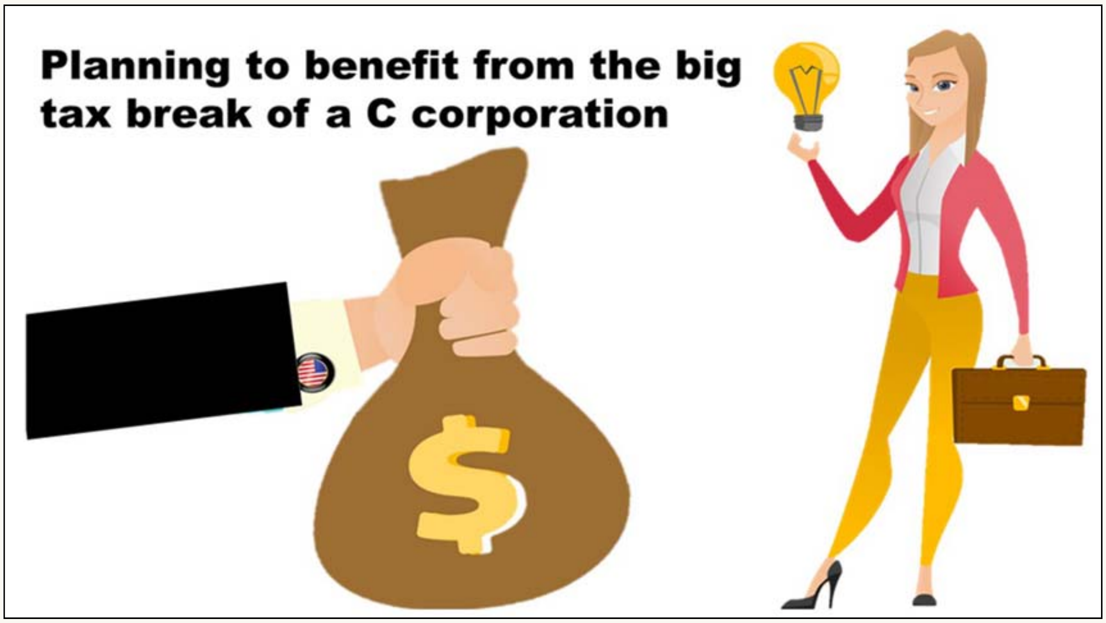
Since January 2018, more than 80 OZ funds have sprung up, even though the Trump administration has not finalized regulations governing them, according to a front-page story in *The New York Times* on February 20th, 2019. "Managers of the funds are seeking to raise huge sums of money by pitching investors on a combination of outsize returns and a feel-good role in fighting poverty."

Some of these OZ areas are more down-and-out than others. Perhaps the most prominent OZ is Long Island City, a waterfront section of the New York borough of Queens. Amazon was set to build a new

How To Sell Your Small Business And Pay No Taxes

So, you want to sell your small business? The good folks in Washington have a dandy tax break exempting you from all federal taxes on the sale—provided that you own a C corporation.

A lot of attention has gone to the special "pass-through business" break



from the new tax law. This benefits income from S corporations and others like it, giving owners a 20% exemption on their business' earnings. That highly popular provision in the Tax Cuts and Jobs Act makes it seem like small business owners would be idiots to classify their company as a C corp.

Well, except for the terrific advantage you get as a C corp seller, which has been available for many years. Aside from the TCJA exemption and the lack of double taxation, C corps are taxed at the corporate level and then the owners get taxed on what they reap after that. In contrast, pass-throughs, like S corps, LLCs, and other partnerships, are only taxed once. C corp shareholders pay zero tax on a company sale, as long as they acquired the shares on or after Sept. 28, 2010. That's a huge tax break!

The gracious 100% tax exclusion is available to anyone with stock in a C corp for over five years. Taxpayers get a smaller break on shares owned before Sept. 28, 2010. You're also entitled to a 5% exclusion on C corp shares owned from Aug. 9, 1993 to Feb. 17, 2009. C corp shares purchased between Feb. 18, 2009 to Sept. 17, 2010 receive an exclusion on 75% of the gain on the purchase price in the event of a sale. If you owned your C corp shares prior to Aug. 9, 1993 date, you're out of luck.

To get this tax-favored status, called a Qualified Small Business Corporation, or QSBC, a small company must meet a batch of requirements. The business' gross assets must be less than $50 million, and the exclusion is capped at the greater of $10 million or 10 times the aggregate basis of the stock the taxpayer sold during the tax year.

Say you sell your business for $10 million. If the QSBC break didn't exist, and your capital gains rate is 23.8% (the top rate of 20%, plus a 3.8% surtax for singles making more than $200,000 annual or couples hauling in over $250,000), you'd owe $2.38 million to the IRS. But thanks to the QSBC benefit, you'd owe the government zilch.

And here's a kicker. Both C corps and pass-through businesses are helped by the new, lower federal tax on companies, 21%, down from 35%. ●

headquarters there but backed out after its large tax breaks stirred controversy. Other gentrifying OZs include Oakland, Calif.; East Austin, Texas; and South Norwalk, Conn, but thousands are located in seedy parts of downtowns across the country.

The frenzy of activity is reminiscent of tax scams peddled after the enactment of major federal tax reforms in the 1980s and 1990s, which resulted in huge losses for investors and a plethora of class-action lawsuits against Wall Street firms and other promoters.


The New York Times

Wall Street, Seeking Big Tax Breaks, Sets Sights on Distressed Main Streets

- Hedge funds and other wealthy investors are plowing money into so-called opportunity zone funds.
- The funds are a creation of the 2017 tax law that provides incentives for spending on projects in poor areas.

Oz investing can be expensive, and you must be comfortable with the risk as well the social objectives of a fund before investing, and it requires personal tax planning and investment research from a professional. Please let us know if you have questions about this new type of investment that must be considered cautiously. ●

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Be Prepared For Tax Policy

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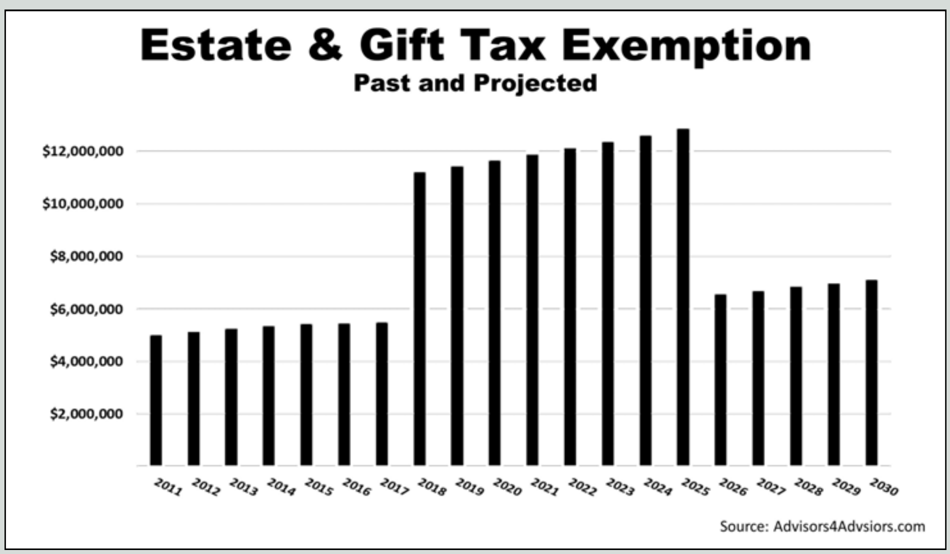
Point is, if tax policy changes, business owners, professionals and individuals benefiting from strategies enabled under the TCJA, may be forced to make decisions about income tax as well as estate and gift tax strategies much sooner than they might have expected. It's not an issue you want to fall behind on and will require personal and professional tax advice.

2025 is supposed to be the date when you use or lose the large estate and gift tax exemption on family wealth transfers. If everything went along as scheduled under the current law, you wouldn't hit that use it or lose it moment until the end of 2025!



However, if tax policy were to shift in 2020 or 2021 — which is a real possibility — then you could be on the precipice of paying millions in estate and gift tax much sooner than expected. ●

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