Volume IV Issue 4

BARKER
FINANCIAL GROUP, INC.
Strategic Wealth Management Advisors

FOR YOUR INFORMATION

Pre-Retirees To Convert To IRAs More Often

The tax burden of Americans was already among the lowest in the world, even before the tax cut that went into effect at the start of 2018.

But the cost of Social Security, Medicare and borrowing are likely to force the U.S. government to raise tax rates in the years ahead.

As a result, if you're nearing retirement or already retired, that makes this a good time to consider converting a traditional individual retirement account into a Roth IRA.

Here's a short lesson on a long-term tax bracket management strategy to increase tax-efficiency in a retirement portfolio, and it sidesteps a new snag in the Tax Cut And Jobs Act that penalizes widows.

Analysis from the non-partisan Congressional Budget Office shows the interest on the U.S. debt will become unsustainable in the mid-2020s.

The $21 trillion U.S. debt surges in the next few years and interest owed on the debt accelerates, along with the risk of default.

As 2023 nears, running trillion-dollar budget deficits annually becomes increasingly untenable policy, and tax rates are likely to rise.

With a traditional individual retirement account, taxes on gains reinvested are deferred. An IRA grows with no taxes owed. When you retire, withdrawals are taxed as income.

A Roth IRA is different. You pay income tax up front and Uncle Sam promises tax-free withdrawals when you're retired.

Inflation has been low for many years.

While it is not expected to rise sharply, the real cost of the federal debt would be reduced if inflation rises.

Many surviving spouses will face a tax penalty after losing a mate under tax brackets enacted by the Tax Cuts And Jobs Act.

For example, a couple with $170,000 of adjusted gross income is in the 24% top bracket, but after one spouse dies the survivor would fall into the 32% bracket.

Retired married couples converting a traditional IRA to a Roth account can avert the widow penalty with proper planning.

Since Roth accounts generate tax-free income, converting to a Roth places a surviving spouse in a lower tax bracket.

(Continued on page 4)

Another Member Of Music Royalty Dies With No Will

Legendary singer, Aretha Franklin succumbed to pancreatic cancer at the age of 76 on August 16, 2018, and she was accorded funeral rites reserved for music royalty. At once humble and a diva, the Queen of Soul, who famously demanded respect, sadly died without a will.

Her estate is subject to probate, a long-drawn out public legal proceeding to hear claims by her four children and other relatives — an undignified end for music royalty.

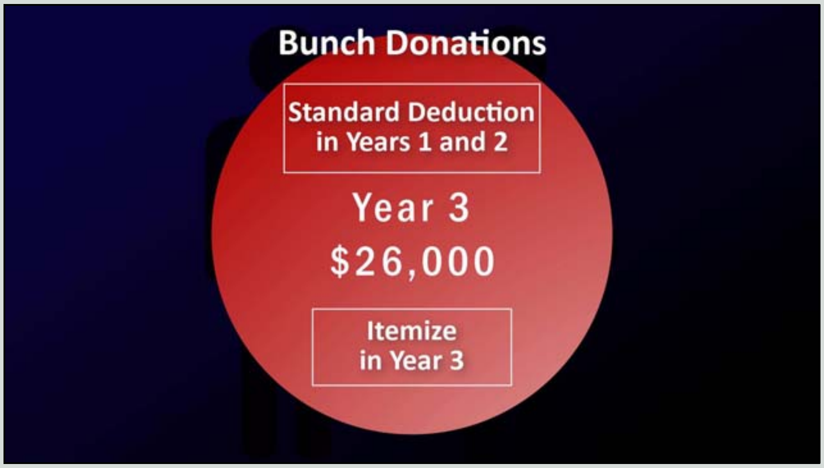
While Ms. Franklin was a genius by most measures and her music legacy lives on, she appears to have had a blind spot when it came to money and, perhaps, mortality. A minister's daughter, Ms. Franklin was known to demand payment in cash before performing live and would keep the cash near her onstage.

It's not uncommon for probate proceedings to result in public family infighting and stupid legal fees; music rights heighten the stakes avariciously. Prince, who died in 2016 without a will, reportedly led to bitter family disputes and revocation of a multimillion-dollar music deal.

Instead of leaving a legacy defined on her own terms, Ms. Franklin's family is subject to a public probate proceeding, which can turn ugly.

If you don't have a will, are unsure about what to do, or think you may have a blind spot around dealing with money or planning beyond your life, please call and let us try to help you.

Sidestepping New Limits On Charitable Donations



If you think you're no longer allowed to deduct items like charitable donations on your income tax return, think again.

The new tax law doubled the standard deduction, slashing the number of Americans eligible to itemize deductions from 37 million to 16 million.

However, if you are among those who will lose your ability to deduct charitable donations, there is a simple strategy for managing the new limits on charitable giving, and it enables you to continue doing good while doing well for yourself by reducing your tax bill.

The strategy is simple: bunch a few years of donations into a single tax year instead of making them annually.

Rather than report charitable donations on your tax return every year, you bunch two or more years of contributions into a single tax year — enough to boost the charitable total above that year's standard deduction.

Say you're married and you give $10,000 in Year 1, $6,000 in Year 2 and $10,000 in Year 3. Your $26,000 total surmounts the $24,000 eligibility. If you deduct the total donations of $26,000 in Year 3, you can take the standard deduction in Years 1 and 2 and itemize in Year 3.

Instead of giving in dribs and drabs, you will need to plan your giving strategy, but this will allow you to give as much as you used to before the limits without losing the tax benefits.

And if you can plan to make the larger donations in a year when you expect higher income, bunching charitable donations can be even more effective in lowering your tax bill.

We'll be speaking with clients about this in the months ahead because this tactic does take some planning in advance.

If you have any questions about your personal situation, please do not hesitate to give us a call. ●

Key Facts On Deducting Medical Expenses

Medical expenses can run up your expenses a lot. For that reason, the new tax law gives people a break by sweetening the long-time tax deduction for health care, at least for a couple of years.

Before the Tax Cuts and Jobs Act (TCJA), you could deduct medical expenses that exceeded 10% of your adjusted gross income (AGI). For the tax years of 2017 and 2018, the TCJA lowered the threshold to 7.5%. AGI is taxable income minus all deductions, IRA contributions and student loan interest. Of course, the medical tax break is available only to people who itemize.

The trouble is the more generous deduction expires after 2018, when the threshold rises back to 10%. Groups like AARP are lobbying in Washington to get the 7.5% level extended or made permanent, and that could factor into your timing and decisions about medical expenses in the months ahead.

Say your AGI is $45,000 and you rack up $5,475 in medical costs. You multiply $45,000 by 0.075 (7.5 percent) to get your deduction threshold of $3,375. Only medical expenses above $3,375 would be deductible. Result: your medical expense deduction is $2,100 ($5,475 minus $3,375).

Some big-ticket items are deductible medical expenses, like long-term care insurance premiums, nursing home payments and Medicare costs — including Medicare Part B, Medigap policies, Medicare Advantage programs and Part D Prescription plans.

In addition, any health insurance you pay out of pocket can be deducted. But that can't include coverage you pay for with before-tax dollars, which is often the case with employer-sponsored medical plans.

Another big deductible item is co-payments for prescription drugs — and also out-of-pocket fees for doctors,

New Year's Resolution: Review Your Estate Plan

Before you ring in another New Year, you may want to take time out of your busy schedule to observe another annual ritual: a review of your estate plan. If you're like most people, you probably stuck your will and other documents in a drawer or a safe deposit box as soon as you had them drawn up—and have rarely thought about them since. But changes in your personal circumstances or other events could mean it's time for an update.

It normally makes sense to review an estate plan at least once a year, just to make sure it's still meeting your main objectives.

Events That Could Spur Changes

What sort of changes might necessitate a change in your plan? Here are events that require alterations in your will or other estate documents.

- The birth or adoption of a child, grandchild, or great-grandchild;
- The death of a spouse or another family member;
- Marriage, divorce, or re-marriage;
- Illness or disability affecting you or another family member;
- A child or grandchild reaching the age of majority;
- A child or grandchild in need of education funding;
- The death of a guardian, executor, or trustee;
- Taking on or paying off a sizeable debt;
- Significant changes in the value of your assets;
- The sale of your residence or a second home;
- A significant promotion at work or a change in jobs;
- Retirement of you or your spouse;
- A large gift or inheritance;
- Sale of a business interest;
- Revisions in federal or state income tax or estate tax laws.

What You May Need To Do

If one or more of these events happens to you, there are several legal documents you may need to revisit.

Your will: As the centerpiece of your estate plan, your will dictates who gets which assets, and it also specifies a guardian for any minor children. Changes in your life since you had the will drafted could require significant alterations. (Note: If a will is kept in a bank safe, it may be sealed upon death. It's better to keep it in another safe.)

Often that will include revisions in the bequests for some of your heirs. For instance, you might expand the list of beneficiaries to include a newborn in the family or reduce it if you've had a falling-out with a relative. A divorce could necessitate a complete overhaul. Also, you might decide to switch executors. Finally, your will may need to be updated to reflect changes in state or federal laws.

Revocable living trusts: Similar to a will, a revocable living trust provides for the distribution of assets transferred to the trust. Unlike a will, however, these assets don't have to pass through probate upon your death. This can save both time and money, and you might decide to use a living trust to supplement your will.

Because the trust is "revocable," you retain the right to change beneficiaries and reallocate assets designated for certain beneficiaries. The same sort of additions and subtractions used for a will might apply to the trust. In addition, depending on your situation, you could amend other terms, such as changing the guardian of minor children, a trustee, or successor trustees.

Durable power of attorney: A power of attorney is a legal document authorizing someone (the "attorney-in-fact") to act on your behalf in financial affairs. A "durable" power of attorney stays in force if you become incapacitated. This can be a vital component of your estate plan.

Are you planning to buy or sell assets or undergo life-threatening surgery? A durable power of attorney may be especially beneficial in these situations. Include this document in your estate plan if you haven't already done so.

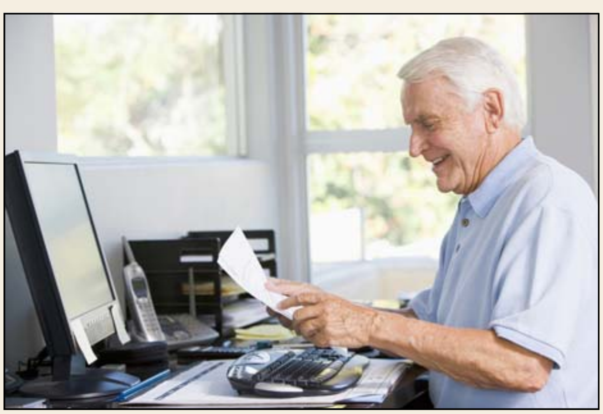
Living will: Finally, a living will can provide guidance to your loved ones should they face difficult end-of-life scenarios. This can be combined with a health care power of attorney to ensure that your physicians and the hospital comply with your wishes.

Living wills are often associated with elderly people, but issues can arise at any stage of life. In your review of your estate plan, look again at this document to see whether it still accurately reflects how you feel. And if you don't have these documents yet, consider adding them to your plan.

Once you've completed the year-end review of your estate plan, circle back to your professional advisors for assistance in implementing any changes that are needed. When you're done, you can look forward to a happy New Year! ●

dentists, physical therapists and other health-care professionals not covered by Medicare or any other health insurance. Add in prescription eyeglasses, hearings aids and wheelchairs, and transportation costs to and from medical appointments, as well as alcohol and drug treatment programs.

Medical expenses are deductible only if they alleviate or prevent a physical or mental defect or illness, including dental and vision. So, you cannot deduct a gym membership if it is to promote your general wellness. However, if a doctor diagnoses you with a specific medical condition, such as obesity or hypertension, then the expense of the prescribed treatment may indeed be tax-deductible, including a gym membership. ●



BARKER
FINANCIAL GROUP, INC.
Strategic Wealth Management Advisors
152 Conant Street, Suite 200
Beverly, MA 01915

Convert To IRAs More Often

(Continued from page 1)

For example, a couple with $170,000 of income would convert from a traditional IRA to a Roth IRA, lowering their income to less than $157,500.

If one spouse dies, the survivor would be in the 24% bracket applied to singles with up to $157,500 of income.

Coming up with the cash to pay the one-time conversion tax is not for everyone.

However, converting makes no sense unless you have cash on hand to pay the income tax on withdrawals from your traditional IRA.

Withdrawing a larger amount to pay the taxes usually is a bad idea.

Tax-sensitive investing tactics like this can reduce a tax bill by a material amount all throughout a surviving spouse's lifetime.

But tax-managed investing is complicated.

We evaluate tax planning opportunities for clients.

Please contact us with any questions about your personal situation. ●