December 31, 2019

You Cannot Trust the Federal Government

In the eleventh hour of estate planning, Congress changed the rules. Several years ago, Congress changed the tax laws so that the heirs of traditional or Roth Individual Retirement Accounts could take required withdrawals over their lifetime and receive decades of income tax-free or tax-deferred compounding after the original IRA owner's death. For example, a 23-year old heir of her grandfather's IRA could take payouts over approximately 65 years, hence the name Stretch IRA.

Now many IRA heirs will have to withdraw the assets within 10 years rather than based upon their own life expectancy. The change in the law takes effect for deaths of IRA owners after December 31, 2019.

The effect of this new law is to force the heirs to recognize income of large amounts in fewer years at more expensive tax brackets thereby generating more taxes for the government to spend.

The effect of this law is also to reduce the trust in government and to tend to rely on short-term planning instead of long-term planning.

If you were planning to use a Stretch IRA to benefit your entire family, you might want to take steps to reconsider how to continue to accomplish your objectives.

Warren's 2 Cents Come at Your Expense

Senator Elizabeth Warren is campaigning for a 2% surtax on anyone's net worth over $50 million and 6% on more than $1 billion. Most discussion on the wealth tax has focused on whether it could generate sufficient revenue to fund Ms. Warren's various spending schemes and the revenue likely would be far less than she projects. But the focus overlooks the ways the massive new tax would harm all Americans.

If you take comfort in Ms. Warren's claim that her tax would apply only to the wealthiest Americans, think again. In 1913 the Progressives of that era sold a federal income tax with the same pitch, saying it would be drawn only from the very wealthy. In the first year a mere 2% of households filed tax returns. Five years later the tax expanded and 20% of households had to file tax returns and by the 10th year nearly 40% did. *Wall Street Journal 11/12/19 p. A19.*

Burglars Are Following You on Facebook

An August 2018 article in London's Telegraph included this disconcerting bit of information: "Insurers are increasingly rejecting claims made by customers whose houses have been burgled while on holiday if they have shared the fact that they are away from home on Facebook, Twitter or Instagram." The report cited a survey showing that a surprisingly high number of Britons have been burgled after posting their location abroad on social media.

In Houston, seven people were charged this past summer in connection with a social media-based burglary ring. Detectives determined that the criminals would search social media for posts indicating when homeowners would be at work or on vacation.

Long before social media there were “obituary bandits” who scoured death notices and robbed homes while the owners were at funerals. Today the full range of life events, from graduations to weddings to reunions, are easy pickings for crooks eyeing social media. *Wall Street Journal 9/12/19 p. A15.*

NY Companies Spend 20% More On Health Insurance

than the rest of the U.S.. Employers in the metropolitan area expect their spending on benefits to rise 3.6% next year after accounting for changes designed to hold down costs, according to an analysis by benefits consultant, Mercer.

The trend would be lower than the 3.9% increase employers experienced this year, with local companies spending $16,059 per employee. That is more than 20% higher than the average cost per employee nationwide. Mercer broke out the responses of 170 employers in New York City, its surrounding counties, northern New Jersey and southern Connecticut from its 2019 National Survey of Employer Sponsored Health Plans.

In the area, the average contribution to premiums for an individual employee is $199 a month in a PPO plan, $169 a month in an HMO plan and $107 a month in a consumer directed health plan which tends to have a higher deductible. The median deductible for members in a PPO plan was $500 locally. *Crain’s 11/4/19 p. 13.*

Elderly Woman Taxed on Income Stolen by Adult Son

The mother suffered from dementia, and the son ended up exploiting her financially by using her retirement payouts and other income deposited into her bank account for his own personal use. The son was eventually removed as his mother’s caregiver. The woman’s daughter claimed that the mother never actually received the income because the son used the funds for his own benefit. That argument did not hold with the District Court, which said the money was received by the mother BEFORE the son misappropriated the funds, so she is taxed on them (Nice D.C. La).

Horse Breeding Losses Aren’t Always Hobby Losses

We are often asked to declare unprofitable activities on tax returns. This case has some relevance to what the criteria is.

A man who bred, trained and showed horses reported losses since 1997. But, he was an EXPERT in the field and had a PLAN to increase his brand recognition. He kept GOOD records and EXPANDED or RESTRICTED his venture as circumstances dictated. Although he enjoyed his time with the horses, the activity was physically demanding and required lots of work from him and OTHERS. These facts and more led the Tax Court to decide he had the requisite profit motive (Besten, TC Memo 2019-154).

As always, if you have any questions about these or any other matters, do not hesitate to call us.

Remember, We’re Here For You!