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Hello!

We would like to send out a welcome to our new clients who recently came on board with us. We look forward to working with you!

Just a reminder that RMD's must be taken by the end of the year. If you have not taken yours yet or you aren't on a systematic distribution, please give us a call.

We wish you a Merry Christmas and Happy New Year!

December 2019

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

For College Savings, 529 Plans Are Hard to Beat

What are the new HRA options that will be available to employers in 2020?

Should I sign up for an identity theft protection service?

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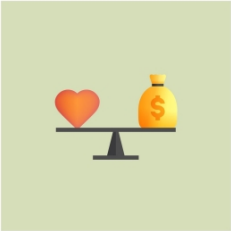
How to Give Like a Billionaire When You Don't Have Billions to Give



Since Bill and Melinda Gates and Warren Buffett created the Giving Pledge in 2010, more than 200 of the world's wealthiest individuals and couples have committed to giving the majority of their wealth to philanthropic or charitable causes.

Although the Giving Pledge only invites billionaires to join, "it is inspired by the example set by millions of people at all income levels who give generously — and often at great personal sacrifice — to make the world a better place."*

You don't have to be a billionaire to embrace the spirit of the Giving Pledge: When people come together to give, regardless of wealth, they can improve the lives of others.

Decide which causes matter most to you

Giving Pledge billionaires are a diverse group, coming from 23 countries and ranging in age from their 30s to their 90s. While they're all dedicated to philanthropy, they support many different causes.

For example, Giving Pledge member Sara Blakely pledged to help empower women to prosper when she signed the pledge in 2013. She has since donated money to build homes for impoverished families and funded entrepreneurial programs for girls.

One of the newest signers of the Giving Pledge, Robert F. Smith, focuses on causes that support equality for African Americans. In May 2019, he told graduates of Morehouse College that he was paying off their student loans via a grant that is worth an estimated $40 million.

What causes are you passionate about? What are your values? Do you want to make an impact locally or globally? Aligning the causes you support with what's meaningful to you can help deepen your long-term commitment to giving back.

Write down why you are giving

Director and producer George Lucas and his wife Mellody Hobson joined the Giving Pledge in 2010. Like other members, they wrote a statement explaining why they wanted to join and what they intended to accomplish.

"My pledge is to the process," Lucas wrote; "as long as I have the resources at my disposal, I will seek to raise the bar for future generations of students of all ages. I am dedicating the majority of my wealth to improving education."*

Lucas fulfilled part of this pledge by creating the George Lucas Educational Foundation to transform education through innovation.

Writing down your own intentions can help clarify your philanthropic goals and serve as a reminder of the impact your gift could have.

Inspire and learn by going public

The Giving Pledge hopes to "inspire conversations, discussions, and action, not only about how much, but also for what purposes/to what end."*

Even if you normally prefer to keep your charitable work private, being open about the causes you support might help inspire others to give back.

Other perks of going public include being able to exchange ideas and lessons learned with others, and the opportunity to meet people in your community or around the world who share your commitment.

Connect generations through giving

A major goal of the Giving Pledge is to encourage long-term family giving that will help make the world a better place for generations to come.

Sharing your passion for helping others with your children or grandchildren can be especially rewarding. Setting family goals, choosing worthy causes, and volunteering together are ways that you can help unite generations and make philanthropy part of your family's legacy.

* To learn more about the Giving Pledge and those who have signed it, visit givingpledge.org.

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

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.

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?

For College Savings, 529 Plans Are Hard to Beat

529 plan assets reach $353 billion

As of June 2019, assets in 529 plans reached $353 billion — $328 billion (93%) in college savings plans and $25 billion (7%) in prepaid tuition plans.

Source: Strategic Insight, 529 Data Highlights, 2Q 2019

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information is available in each issuer's official statement and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, and should be read carefully before investing. Also consider whether your state offers a 529 plan that provides residents with favorable state tax benefits and other benefits, such as financial aid, scholarship funds, and protection from creditors. As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.*

Raising kids is hard enough, so why not make things easier for yourself when it comes to saving for college? Ideally, you want a savings vehicle that doesn't impose arbitrary income limits on eligibility; lets you contribute a little or a lot, depending on what else happens to be going on financially in your life at the moment; lets you set up automatic, recurring contributions from your checking account so you can put your savings effort on autopilot; and offers the potential to stay ahead of college inflation, which has been averaging 3% to 4% per year.[1] Oh, and some tax benefits would be really nice, too, so all your available dollars can go to college and not Uncle Sam. Can you find all of these things in one college savings option? Yes, you can: in a 529 plan.

Benefits

529 college savings plans offer a unique combination of features that are hard to beat when it comes to saving for college, so it's no surprise why assets in these plans have grown steadily since their creation over 20 years ago.

Eligibility. People of all income levels can contribute to a 529 plan — there are no restrictions based on income (unlike Coverdell accounts, U.S. savings bonds, and Roth IRAs).

Ease of opening and managing account. It's relatively easy to open a 529 account, set up automatic monthly contributions, and manage your account online. For example, you can increase or decrease the amount and frequency of your contributions (e.g., monthly, quarterly), change the beneficiary, change your investment options, and track your investment returns and overall progress online with the click of a mouse.

Contributions. 529 plans have high lifetime contribution limits, generally $350,000 and up. (529 plans are offered by individual states, and the exact limit depends on the state.) Also, 529 plans offer a unique gifting feature that allows lump-sum gifts up to five times the annual gift tax exclusion — in 2020, this amount is up to $75,000 for individual gifts and up to $150,000 for joint gifts — with the potential to avoid gift tax if certain requirements are met. This can be a very useful estate planning tool for grandparents who want to help pay for their grandchildren's college education in a tax-efficient manner.

Tax benefits. The main benefit of 529 plans is the tax treatment of contributions. First, as you save money in a 529 college savings plan (hopefully every month!), any earnings are tax deferred, which means you don't pay taxes on the earnings each year as you would with a regular investment account. Then, at college time, any funds used to pay the beneficiary's qualified education expenses — including tuition, fees, room, board, books, and a computer — are completely tax-free at the federal level. This means every dollar is available for college. States generally follow this tax treatment, and many states also offer an income tax deduction for 529 plan contributions.

Drawbacks

But 529 plans have some potential drawbacks.

Tax implications for funds not used for qualified expenses. If you use 529 plans funds for any reason other than the beneficiary's qualified education expenses, earnings are subject to income tax (at your rate) *and* a 10% federal penalty tax.

Restricted ability to change investment options on existing contributions. When you open a 529 college savings plan account, you're limited to the investment options offered by the plan. Most plans offer a range of static and age-based portfolios (where the underlying investments automatically become more conservative as the beneficiary gets closer to college) with different levels of risk, fees, and management objectives. If you're unhappy with the market performance of the option(s) you've chosen, you can generally change the investment options for your *future* contributions at any time. But under federal law, you can change the options for your *existing* contributions only twice per year. This rule may restrict your ability to respond to changing market conditions, so you'll need to consider any investment changes carefully.

Getting started

529 college savings plans are offered by individual states (but managed by financial institutions selected by the state), and you can join any state's plan. To open an account, select a plan and complete an application, where you will name an account owner (typically a parent or grandparent) and beneficiary (there can be only one); choose your investment options; and set up automatic contributions if you choose. You are then ready to go. It's common to open an account with your own state's 529 plan, but there may be reasons to consider another state's plan; for example, the reputation of the financial institution managing the plan, the plan's investment options, historical investment performance, fees, customer service, website usability, and so on. You can research state plans at the College Savings Plans Network.

[1] College Board, Trends in College Pricing, 2014-2018

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Health reimbursement arrangements (HRAs) are employer-sponsored accounts that help employees pay for health-care expenses on a tax-advantaged basis. An employer establishes HRA accounts on behalf of employees and allocates a certain amount of money to them each year. Funds accumulate tax-free and are used to reimburse employees for qualified medical expenses such as health insurance premiums, routine medical bills, deductibles, and prescription drugs. Beginning in January 2020, employers can offer two new types of HRAs — an Individual Coverage HRA and an Excepted Benefit HRA.

Individual Coverage HRA (ICHRA). Employees can use funds allocated by their employer to buy their own health insurance on the individual market, subject to certain conditions. ICHRAs can also satisfy the Affordable Care Act (ACA) employer mandate as long as they provide sufficient funding to be considered "affordable." (Per the ACA, employers with 50 or more full-time employees are required to offer affordable health coverage that meets certain minimum standards.) ICHRAs may be especially appealing to small employers that want to offer health coverage but have found traditional group plans to be cost-prohibitive. The U.S. Departments of Health and Human Services, Labor, and the Treasury, which issued the new rules in June 2019, estimate that approximately 800,000 small businesses will offer ICHRAs to their employees.

Excepted Benefit HRA (EBHRA). This type of HRA must be offered in conjunction with a traditional health plan. It allows employers to set aside a limited amount of funds ($1,800 per employee in 2020) to help pay for qualified medical expenses, including premiums for vision and dental insurance, COBRA coverage, and short-term, limited-duration insurance (not offered in all states). It is available even if the employee declines to participate in the primary plan.

Employees cannot be offered both an ICHRA and an EBHRA. Certain rules (including nondiscrimination rules), requirements, and conditions apply. For more information, review the new rules carefully and visit the FAQ page on the IRS website.

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

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