



MOLDENHAUER ASSOCIATES

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What a year! We have all been affected by the pandemic in so many ways that you have to wonder. First, the scare itself and the reality of the illness, deaths, and societal disruption. Politicians on all sides of the aisle seem totally consumed with distain for "the other side". Instead of attacking the pandemic in a unified front for the benefit of all, they are using it as a tool to divide us as a Nation. Please check your values and vote in the upcoming election.

I am always tempted to expand my dialogue and share my real concerns about the country's future. I will not, but I encourage people to read a book on the "real" American History. While not a perfect nation, we are, and have always been a good country that is trying to become better.

I have been in WNY for the summer, but have not been out and about the way I normally would be. I am sure most of you have been being careful, too. For those people we usually try to see but did not, forgive us, we are trying to be careful. It has been nice seeing the office reopen and clients returning. All employees are still working and seem to be happy being back at the office.

As stated in my last newsletter, we added a new associate to the firm. His name is Ja Smith. He and his wife have relocated from the Boston, MA area and have become residents of East Aurora. He had worked at the Commonwealth Headquarters Office for several years, so he has a solid familiarity with our Broker Dealer. We welcome Ja to the firm and know he will be a great addition to our top-notch team.

Brett and the staff are taking steps to improve the building's functionality and safety. Plans are being developed for several phases of remodeling and upgrading. When you visit the office, take note of the changes.

I'd like to thank Jennifer Williams for the terrific work she has done with the flowers and bushes in front of the building.

Jennifer is the lady who is our late afternoon receptionist and assistant. During the pandemic, when clients were not visiting the office, she devoted extra time and effort to the beautification of the grounds.

For us, like many businesses, it has been a challenging year. We are doing well and are beginning to grow again. We hope that soon our lives, and yours, will return to a more normal.

I have always believed that as we come through difficult economic cycles, there is an increased opportunity for growth and expansion. Because of this, it is our hope that we will be able to find and employ one additional associate in the coming months. If you are a client or friend of the firm, you know our desire is to provide excellent advice and service to and for all our clients on a continuing basis. Adding the right career-minded people is the only way for us to accomplish this. If you know of a talented person that might benefit from a career discussion with us, please make the introduction.

While Kathy and I are here for a while, it won't be long before we'll be returning to our South Carolina home. Please continue being safe and well.

Richard Moldenhauer

Richard Moldenhauer



TAXABLE EVENTS IN RETIREMENT ACCOUNTS

What triggers a tax liability for an individual or a trust?

When you distribute, sell, or receive assets from a retirement account, taxes usually follow.

It is true for individuals; it is true for trusts. These decisions represent taxable events.

Many retirement accounts are tax-deferred, but not tax-exempt.

So, at some point, a “day of reckoning” arrives for these accounts, and taxes are due. The tax liability may differ greatly, depending on account ownership.

Trust income is now taxed much more than individual income.

This is a result of the Tax Cuts and Jobs Act of 2017.¹

As an example, in 2019, a trust could earn up to \$2,650 in taxable income without federal taxes on its qualified dividends or capital gains. That threshold was almost 15 times higher (\$39,375) for an individual. Factor in a \$12,200 standard deduction in that same year, and an individual could potentially have up to \$51,575 in qualified dividends to manage their federal income tax liability.¹

Additionally, an individual has to have net investment income or modified adjusted gross income in excess of \$200,000 per year to face the 3.8% net investment income tax (NIIT). Compare that with a trust: the threshold is just \$12,750.²

Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

Say an investment in your retirement account is sold for a capital gain.

If it has been held in your account for less than a year, that capital gain is short term; short-term capital gains are usually taxed at the same rate as earned income. If those shares have been in your account for more than a year, then long-term capital gains tax rates likely apply, which are either 0% or 15% for most individuals.³

A trust also faces the possibility of capital gains tax in this situation whether it distributes the gain or it doesn't. Both trusts and individuals can use capital losses to offset capital gains.^{1,4}

Suppose you receive dividends in a retirement account.

In an ordinary brokerage account, qualified dividends are taxable annually whether the money is distributed, reinvested, or left in cash. The threshold for taxation of qualified dividends is much lower for a trust than for an individual. Reinvested dividends in an Individual Retirement Account (IRA) are not taxed.^{1,5}

Regarding IRAs, it is important to note that distributions from traditional IRAs must generally begin once you reach age 72. The money distributed to you is taxed as ordinary income. When such distributions are taken before age 59½, they may be subject to a 10% federal income tax penalty, although the CARES Act allows some exceptions to the penalties for 2020. (You may continue to contribute to a Traditional IRA past age 70½ under the SECURE Act as long as you meet the earned-income requirement.)⁶

How are taxable events in retirement accounts reported, and when are taxes withheld?

Each tax year, Form 1099s tell the story. The 1099-DIV tracks dividends, the 1099-INT displays interest income, and the 1099-R shows distributions out of pensions, IRAs, retirement plans, and insurance contracts.⁷

Now to withholding. Distributions from employee retirement plans have taxes withheld unless a trustee-to-trustee transfer occurs (i.e., the invested assets go seamlessly from one retirement plan to another, with the individual or trust never taking possession of them). The withholding rate in such instances is 20%. An IRA owner can choose not to withhold tax from an IRA distribution; otherwise, the withholding rate is 10%. There is no withholding at all, of course, on investment income from a taxable brokerage account or capital gains and losses.⁸

Keep in mind that this article is for informational purposes only and not a replacement for real-life advice. Also, tax rules are constantly changing, and there is no guarantee that the tax treatment of IRAs and other qualified retirement plans will remain the same in years ahead, for individual taxpayers or trusts.

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The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change.

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Citations.

1. The Tax Adviser, April 25, 2019
2. Internal Revenue Service, May 28, 2020
3. Tax Policy Center, May 2020
4. CRRCPA.com, August 27, 2019
5. Investopedia, January 21, 2020
6. TheStreet, May 13, 2020
7. Nolo.com, August 12, 2020
8. The Balance, July 14, 2020

A CHECKLIST FOR WHEN A SPOUSE OR PARENT PASSES

An overview of some of the fundamental steps to take.

When you lose a spouse, partner, or parent, the grief can be overwhelming.

In the midst of that grief, life goes on. There are arrangements to be made, things to be taken care of – and in recognition of this reality, here is a checklist that you may find useful at such a time.

First, gather documents.

Ask for help from other family members if you need it. Start by gathering the following.

- A will, a trust, or other estate documents. If none of these exist, you could face a longer legal process when settling the person's estate. If a trust exists, consider contacting the professional or firm who helped set up the document.
- A life insurance policy. As a rule, you will need the death certificate, with the cause of death listed, to move forward with any claim.
- A Social Security card/number. Generally, the person's Social Security number will be retired shortly following the death.

Then, gather these additional highly important items.

- Bank account, investment account, and retirement plan statements
- Deeds/titles to real estate
- Car titles or lease agreements
- Storage space keys/account records
- Safe deposit box keys
- Any bills due or records of credit card statements
- Any social media platforms, if applicable

Last, but not least, look for a computer file or printout with digital account passwords. Prior to their loved one's passing, some family members may try to centralize all this information or state where it can be found.

In addition, see if the person left a letter of instructions. A letter of instructions is not a legal document; it's a letter that provides additional and more-personal information regarding an estate. It can be addressed to whomever you choose, but typically, letters of instructions are directed to the executor, family members, or beneficiaries.

Next, take care of some immediate needs.

One, contact a funeral home to arrange a viewing, cremation, or burial, in accordance with the wishes of the deceased.

Two, call or email the county clerk or recorder to request 10 to 12 death certificates; a funeral home director can often help you with this matter. (Counties usually charge a small fee for each copy issued.) Ten to 12 copies may seem excessive, but you may need that many while working with insurance companies and various financial institutions.¹

Three, if the person was still working, contact the human resources officer at your loved one's workplace to inform them what has happened. The HR officer might need you to fill out some paperwork pertaining to retirement plans, health benefits, and compensation for unused vacation time.

Four, consider speaking with an attorney – ideally, this is the lawyer who helped your loved one create a will or estate plan. Should your loved one die without a will, you may want to contact a lawyer, anyway, for an overview of how the probate process will work and see to what degree you might become liable for your loved one's debt.

Five, resolve to keep track of any recurring debts that your loved one had set to autopay. The monthly bills for these debts should now be put in your name and paid from your accounts. (Creditors can be sympathetic in these situations and maybe lenient with you if you ask.)

Following these steps, address financial, insurance, and credit matters.

Investment and retirement plan accounts and insurance policies should have beneficiaries, so reach out to the financial and insurance professionals who helped your loved one as well as the person overseeing their workplace retirement plan. Talk with these professionals to learn about your options as a beneficiary and the possible tax implications from inheriting these assets.

You will also probably need to update the listed beneficiaries on any investment accounts you inherit. (The same applies to your own will, insurance policies, and estate strategy.) Titles and deeds for real estate, cars, and trucks also need updating.

If you have lost your spouse, check with Social Security to see what spousal and survivor benefits you might be eligible to receive. If your spouse was a veteran, the Veteran's Administration will want to know of their death, as you may be due spousal benefits.

Certain employers and labor unions may offer pensions or life insurance benefits to spouses of past employees or members. If your late spouse once worked for a large employer or belonged to a union, this is something to ask about.

Notify creditors and credit card companies that were part of your loved one's credit history. You can close accounts held solely by the deceased; those jointly held will need to have your loved one's name removed from them. Creditors may want to know when existing debts will be paid, either by you or your loved one's estate. You can also notify the "big three" credit bureaus – Experian, Equifax, and TransUnion – of their passing, which can be done online, over the phone, or by letter.²

State and federal taxes for your loved one will also need to be paid, and possibly, other taxes for the year of their death; talk with a tax professional about this.

Are you the parent of a college student? Your student may now be eligible for a greater degree of financial aid. Ask your child to speak with a financial aid officer about this.

If your loved one owned a small business or professional practice, a discussion with business partners (and clients) may be necessary as well as a consultation with the attorney who advised that business.

Look after your future. Your retirement and estate strategies are poised for change because of this life event. The way you invest and the amount you save for the future may change, especially in relation to your household's change in expenses, income, and assets. So, a chat with a financial professional in the weeks or months ahead may be in order.

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Citations.

1. Nolo, July 30, 2020

2. Credit.com, February 14, 2020

WHAT IS REG BI?

A look at Regulation Best Interest.

Recently, you may have heard that financial industry regulators established a new set of rules designed to guide investors who work with an investment professional. This new set of rules is called "Regulation Best Interest" rule, known colloquially as "Reg BI."¹

This rule establishes a series of guidelines about how to meet investors' best interests. It provides steps for financial professionals to follow in an effort to give investors a higher level of comfort when making decisions. It also outlines strategies that take investors' overall financial situation into account when proposing solutions.

For many investors, such procedures were already in place, and the new rules may not affect our day-to-day practices in ways that you may immediately notice. A conversation with your trusted financial professional about "Reg BI" and how it might affect your investment strategy might be in order; they can answer any questions you may have about this regulation.

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1 - finra.org, July 14, 2020



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Our upcoming seminars are at:

UPCOMING SEMINAR SITES AND DATES TO BE DETERMINED SOON.

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