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MOLDENHAUER & ASSOCIATES

MAYNEWSLETTER

Editor: Richard C. Moldenhauer, CLU, CEP, RFC *Chartered Financial Consultant*

The first third of the year is behind us. During April, we hit a couple milestones. This was a genuinely nice start for the year.

On the other hand, several things are happening in our country that should scare the most open minded of us. Change is not a new phenomenon. It has been with us since time began. Today, change seems to be being forced on us faster than most of us can even comprehend.

I have chosen to include a few of President Biden's proposed tax changes that will be included in his "America Tax Plan". Some of these will become part of the future we will need to deal with. Hopefully, most of the proposed changes will be eliminated or watered down before they become law.

The talk is that only the super affluent will be affected. Unfortunately, that is never how it ends up. In most cases, when the "rules" are changed, they disproportionately hurt the people the politicians claim they want to assist. Looking at history is our best teacher.

Under the proposed changes:

1. The corporate tax rate increases from 21% to 28%. As this occurs, these increases will be passed through to you and me. This means that the cost of goods and services will be increased. This will disproportionately affect the middle class
2. Elimination of all credits and subsidies for fossil fuel industries. Again, fuel and energy will cost the consumer more. Vehicles will cost more and the fuel that keeps them moving will increase. Electricity will cost more and until the electrical grids are updated, we will all spend more days in the dark.
3. Estates more than $3.5 million will be taxed at 45% on a Federal basis. In NY, there is discussion of doubling the State Inheritance Tax bringing the tax to 18% on all assets over 1 million.
4. Annual gift tax exclusion will be reduced to $10,000 per donee and a total of $20,000 per donor.
5. Most trust planning will be eliminated or effectively damaged.
6. Step up in basis at death rules will be seriously damaged causing problems for many, if not most, small and mid-sized businesses.
7. Income taxes for individuals over the reduced threshold will be increased significantly.

There is no free lunch. Chances are if you received "free money" during the pandemic, you will be returning it through new taxation programs.

I have only touched on several of the tax increase issues. There are several I skipped over. I urge you to stay on top of these issues. If you plan for the changes, many of the new tax traps can be avoided.

Have a conversation with your CPA or your advisor; perhaps both.

I could stop here, but I will not.

Historically, each time our country goes through a time of great stress, it comes out stronger. I believe this will be the case this time. In many ways, nothing ever changes. Develop a plan, live by your plan, avoid excess, stay properly invested, maintain adequate liquidity, and avoid unneeded stress.

We are going to come out of this historically unique time that was instigated by the COVID 19 pandemic. Be prepared for an even brighter tomorrow.

Richard Moldenhauer

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"GREEN SHOOTS" IN THE ECONOMY

Some examples to consider.

Investors looking for "green shoots" to confirm that the economy is on the mend have seen plenty of examples in recent weeks.

Retail sales rose 9.8% in March, the largest monthly gain since May 2020. It's important to remember that purchases at stores, restaurants, and online are among the biggest drivers of overall economic activity. The gain coincides with the government distributing hundreds of billions of dollars in stimulus funds to households.[1]

New jobless claims came in at 576,000 for the week ended April 10—the lowest level since March 14, 2020, and continuing unemployment claims were at their lowest four-week moving average since March 28, 2020.[2]

Housing starts rose 19.4% to 1.7 million units in March, the highest level since June 2006.[3]

Green shoots is a term used to indicate signs of economic recovery after a downturn. It's a reference to when plants start to show signs of life again. Most recently, former Fed Chair Ben Bernanke used the metaphor to describe the economic recovery following the 2007-2008 financial crisis.[4]

There is no doubt the economy may face several challenges in the months ahead. Interest rates, taxes, and inflation are three issues that may take over the headlines at any time.[5]

But please know that we're keeping a close eye on the economic trends. This watchfulness is in an attempt to determine "what's the signal and what's the noise" as events unfold. In the meantime, reach out if you anticipate any green shoots in your personal finances. We'd welcome the chance to hear your story.

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Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC

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 Wall Street Journal, April 15, 2021
2. Department of Labor News Release, April 15, 2021
3. Reuters, April 16, 2021
4. Investopedia.com, 2021
5. CNBC.com, April 14, 2021

RICH'S THOUGHTS ON THE CRAZY TIMES WE ARE LIVING IN:

There is something strange going on in the country. Because of this, the concept of **defensive financial planning** has never been more important. You might think I am being funny. I am not.

Where did COVID-19 come from? Will it go away? First, we were told masks were not helpful. Then mask wearing became the law. Then we needed 2 masks. When does this end?

Our taxes were lowered, and the economy did well. Investors did well.

Now the government is starting on an endless spending spree. Politicians say only the top 1% will have taxes increase, but we have seen this before. In the end, everyone's taxes and cost of living increase.

A lot of people think it is good if someone else pays for the government's largess. How will they feel when they come for them?

I am getting older, and I have seen this several times during my career.

Now the "elite" want to eliminate the police and justice all together. These are crazy times in which we dwell. Hopefully, this will pass, but in the meantime, LET'S get back to common sense.

Here are my suggestions:

1. Save more money for that rainy day. If you do not need the money you save, I guarantee your children will.
2. Take the time to review your wills and related documents. I know you think they are good, but experts say that at least 80% of existing documents need updating. Beware many rules are changing.
3. While tempted by low interest rates, avoid new and unnecessary debt. Soon, inflation and devaluation will destroy many people who are over leveraged.
4. While it may be tempting, do not get over aggressive in your investment planning. A good rule is if you lost 50% in a market correction (devaluation), could you still live in your world as it is today?
5. Look at your life insurance. Most people should at least double their coverage amount. Do not let policies lapse or cancel. No matter what you think, you are underinsured.
6. If you are going to drop a policy or cash it in, consider other options. Life settlements can usually help raise more cash than a surrender.
7. Stop the PROCRASTINATION.

If you would like to discuss any of these topics with me, or another advisor, let us know. I will be back in WNY by mid-May, and I would be happy to talk with you.

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Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC

QUALIFIED CHARITABLE DISTRIBUTIONS

A choice for I.R.A. owners who want to reduce taxes linked to I.R.A. distributions.

Do you have an I.R.A.?

As you enter your 70s, you may start to look at that I.R.A. not only as an asset, but also as a problem. By law, you must take required minimum distributions (R.M.D.s) from a Traditional I.R.A. once you reach age 72; there are very few exceptions to this. The downside of these R.M.D.s? The entire distribution is taxable. (You never have to take R.M.D.s from a Roth I.R.A., provided you are its original owner.)[1]

While the income from the R.M.D. is nice, the linked taxes can be a headache.

Relief for that headache might be available to you, though. Did you know that you can potentially satisfy some or all of your annual R.M.D. requirement in a way that can help you manage taxes and make a charitable impact?

Consider the Qualified Charitable Distribution, Q.C.D.

This is a direct asset transfer from an I.R.A. to a charity or non-profit organization of your choice. The organization must be tax-exempt under Internal Revenue Section 501(c)(3).[2]

A Q.C.D., sometimes called a charitable I.R.A. gift, is intended to accomplish two things.

One, it gives you a chance to contribute up to $100,000 in a single year to a cause or charity. Two, you can count the entire amount of the Q.C.D. toward your R.M.D. for the year, and the Q.C.D. amount may not be included in your gross income.[2]

You must be at least 70½ years old to make a Q.C.D.

You may want to coordinate a Q.C.D. with the help and guidance of a financial professional, because if you improperly manage the transfer of assets between your I.R.A. and the charity, the tax break you hope for could be lost. You also need to allow enough time for the asset transfer to occur, meaning Q.C.D.s are best arranged before the very end of a calendar year.[2,3]

In 2020, the age limit for putting money into a Traditional I.R.A. was lifted, and some older I.R.A. owners wondered if they could make a Q.C.D. to a charity and simultaneously characterize it as an I.R.A. contribution. The Internal Revenue Service said no to that.[2]

That said, a Q.C.D. is a choice that you may want to look at, especially if you think of taxes when you think of your mandatory annual I.R.A. distributions. It should be noted that the tax treatment of I.R.A.s can change from year to year, and remember, this article is for informational purposes only and does not constitute real-life advice. If a Q.C.D. interests you, consider talking with a financial professional before making any move.

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Citations.

1. Forbes, February 23, 2021

2. TheStreet, August 31, 2020

3. Investopedia, October 29, 2020

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UPCOMING EVENTS:

Our June seminars are at:

Orchard Park Country Club	Ilio DiPaolo's Restaurant
Thursday, June 10, 2021 at 6 p.m.	Tuesday, June 15, 2021 at 6 p.m.
4777 S. Buffalo Street	3785 South Park Avenue
Orchard Park, NY 14127	Blasdell, NY 14219

Please note that we will be following NYS Covid 19 guidelines to include social distancing and mask wearing when not seated at table.

Please visit our website at www.moldenhauerassociates.com for updates.

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