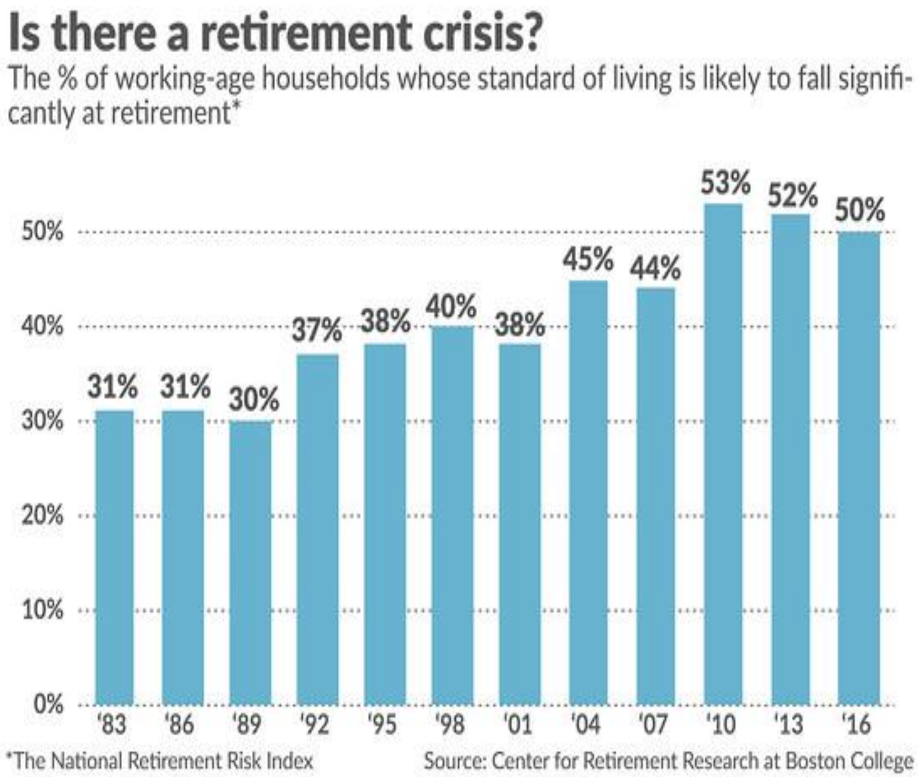
New England Investment & Retirement Group, Inc.

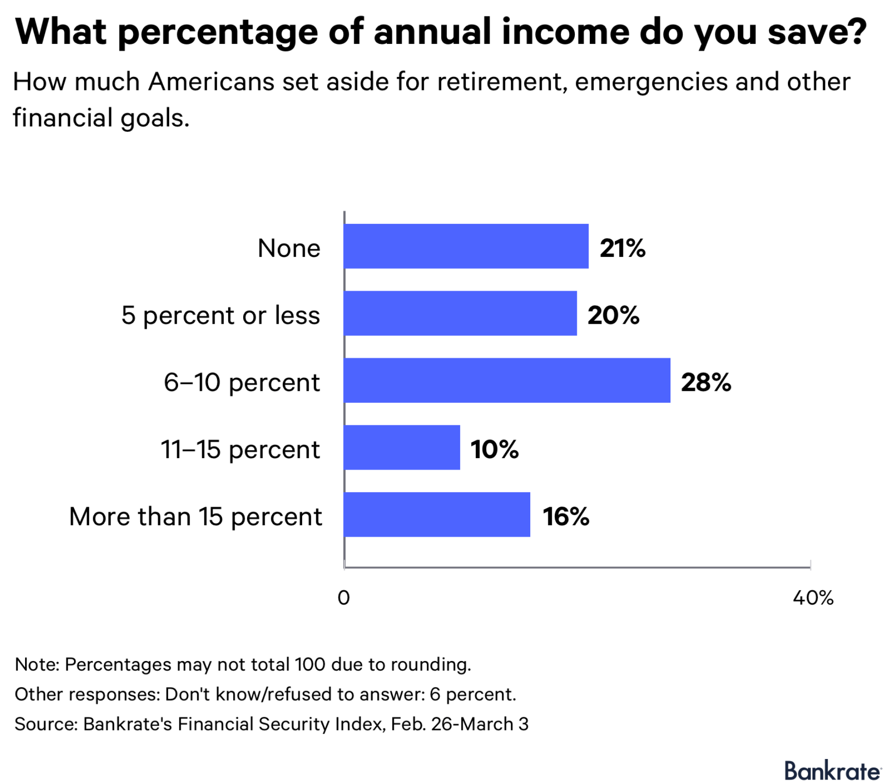
Welcome

Financial Planning Updates
August 2019

Big Changes Ahead?

Given the well-documented U.S. retirement savings crisis, Congress is considering legislation that could further encourage saving for retirement, among other key changes.





According to Vanguard's "How America Saves 2019" report, their median 401(k) account balance for investors age 65 and older is $58,035.

The SECURE Act & RESA

- In late May, the House of Representatives passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act by an overwhelming majority of 417-3.

- The Senate has its own version of retirement legislation called the Retirement Enhancement and Savings Act (RESA).

- While provisions in the Senate's version differ slightly from the House version, it is anticipated that the Senate may choose to adopt and vote on the House version (SECURE Act) to fast-track the legislation.

The SECURE Act – Key Provisions

1) **Push Back the Age for Required Minimum Distributions, from age 70½ to 72**

2) **Remove Age Restrictions for Traditional IRA Contributions**
    - Currently, individuals age 70½ and older (who are thus subject to taking RMDs) cannot contribute to a Traditional IRA

3) **Allow Graduate & Post-Doctoral Students to Save**
    - Stipends and non-tuition fellowship payments would be considered compensation which would thus allow for retirement contributions

4) **Allow Part-Time Workers to Participate in 401(k) Plans**
    - The new threshold would be 500 hours for three consecutive 12-month periods, whereas many 401(k) plans require 1,000 hours within a 12-month period
    - This provision may not be effective until January 1, 2021

5) **Incentives for Small Business Retirement Plans**
    - The tax credit for retirement plan start-up costs would increase to 50 percent, with the maximum credit shifting from $500 to $5,000
    - An additional $500 tax credit for start-up costs for new plans that include automatic enrollment
    - Unrelated employers could join together to create a multiple-employer plan and have a “pooled plan provider” administer the plan

The SECURE Act – Key Provisions

6) **Increase the Automatic Enrollment Cap**
   - Under current law, an employer cannot set a “qualified automatic contribution arrangement (QACA)” for an employee’s contribution above 10 percent for any year
   - The allowable cap would increase from 10 percent to 15 percent, except for an employee’s first year of participation

7) **Expand Annuity Options with Employer Retirement Plans**
   - 401(k) plan sponsors would have greater flexibility to offer annuities and other “lifetime income” options, while reducing sponsor’s legal risks
   - The SECURE Act would also require plan administrators to provide an annual disclosure with an estimate of how much a participant *might* get each month if the 401(k) were used to purchase an annuity

8) **Penalty-Free Withdrawals for New Parents**
   - Within a year after birth or adoption, a new parent could withdraw up to $5,000 without the usual 10 percent early distribution penalty

9) **Elimination of the “Stretch IRA”**
   - Under current law, beneficiaries can stretch withdrawals over their lifetimes
   - Under the SECURE Act, non-spouse beneficiaries would be required to deplete inherited retirement accounts over 10 years
   - Exceptions: if the beneficiary is a minor, disabled, chronically ill, or not more than 10 years younger than the deceased owner (for minors, the 10-year timeline would be deferred until the age of majority)

The SECURE Act is “On Hold”…

- Given broad bipartisan support for the SECURE Act, supporters of the bill had hoped it would receive “unanimous consent” in the Senate which would allow for quick passage without requiring a formal floor vote.

- The bill is currently stalled in the Senate, with several Republican senators having placed “holds” on the legislation due, primarily, to objections over the omission of a provision to expand 529 education savings plans for home school expenses. It is believed that Senators Ted Cruz of Texas and Pat Toomey of Pennsylvania placed holds on the SECURE Act.

- It is widely expected that the Senate would pass the SECURE Act if brought to a floor vote, though there is concern that with lawmakers on summer recess until early September and a packed legislative agenda, the bill may not be passed this year.

The Legacy IRA Act

- Under current law, individuals age 70½ or older can make a Qualified Charitable Distribution (QCD) from an IRA to charity, totaling up to $100,000 per year. The distribution neither counts as income nor as a tax deduction, though it does count toward fulfilling the required minimum distribution.

- Under the Legacy IRA Act…
    - Available to taxpayers age 65 and older
    - The QCD would be expanded from $100,000 to $400,000 for gifts to a "split-interest entity": a charitable remainder annuity trust (CRAT), a charitable remainder unitrust (CRUT), or a charitable gift annuity (CGA).

- The distribution would only qualify so long as (1) the income interest is only for the benefit of the individual, the spouse or both and (2) the income interest is non-assignable.

- The bill has a minimal expected cost at $106 million over 10 years.

- The goal of this act is to allow middle-class taxpayers (some of which may not be itemizing deductions) to more fully engage in philanthropy through life-income gifts.

- The bill is currently on hold, following its introduced in April 2019 by Senator Kevin Cramer of North Dakota. In mid-July, an identical bill was referred to the House Committee on Ways and Means.

KEY CHARITABLE GIVING UPDATES

Tax Cuts & Jobs Act (TCJA)

1) The Tax Cuts & Jobs Act (TCJA) made significant changes to the Standard Deduction and Itemized Deductions. As such, taxpayers' itemized deductions may be drastically different as of 2018 & beyond.

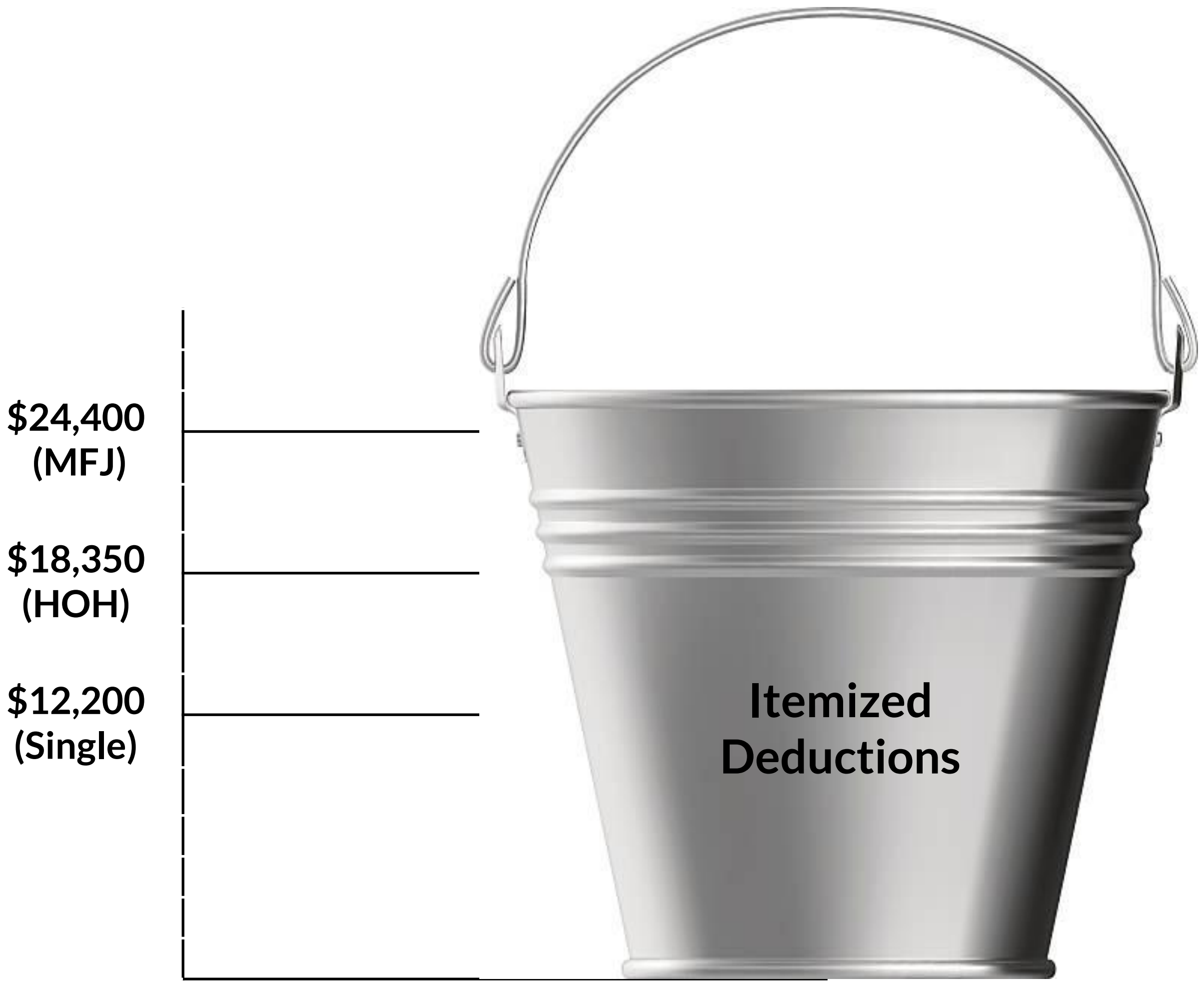
	STANDARD DEDUCTION			
	2017		2018	2019
Single	$6,350	TJCA CHANGES	$12,000	$12,200
Head of Household	$9,350		$18,000	$18,350
Married Filing Jointly	$12,700		$24,000	$24,400

2) The deduction for State and Local Taxes ('SALT') is now capped at $10,000. This category includes state and local income taxes and property taxes.

3) For taxpayers who previously had a high SALT deduction *and* who have little-to-no mortgage interest *and* who are charitably inclined, there may be planning opportunities related to accelerated charitable giving ('bunching' strategy).

Itemized Deductions

How does your itemized deduction "bucket" compare to your standard deduction?



- Medical & Dental Expenses
- State & Local Taxes ('SALT')
- Home Mortgage Interest
- Investment (Margin) Interest
- Charitable Gifts
- Casualty & Theft Losses

2019 Federal Tax Provisions

The Tax Cuts and Jobs Act (TCJA) – which became effective as of 2018 – included major changes to the Standard Deduction & Itemized Deductions while it eliminated Personal Exemptions and "Miscellaneous 2% AGI" Deductions.

A taxpayer takes the ***greater of*** their standard deduction ***or*** itemized deduction total.

Standard Deduction	Itemized Deductions

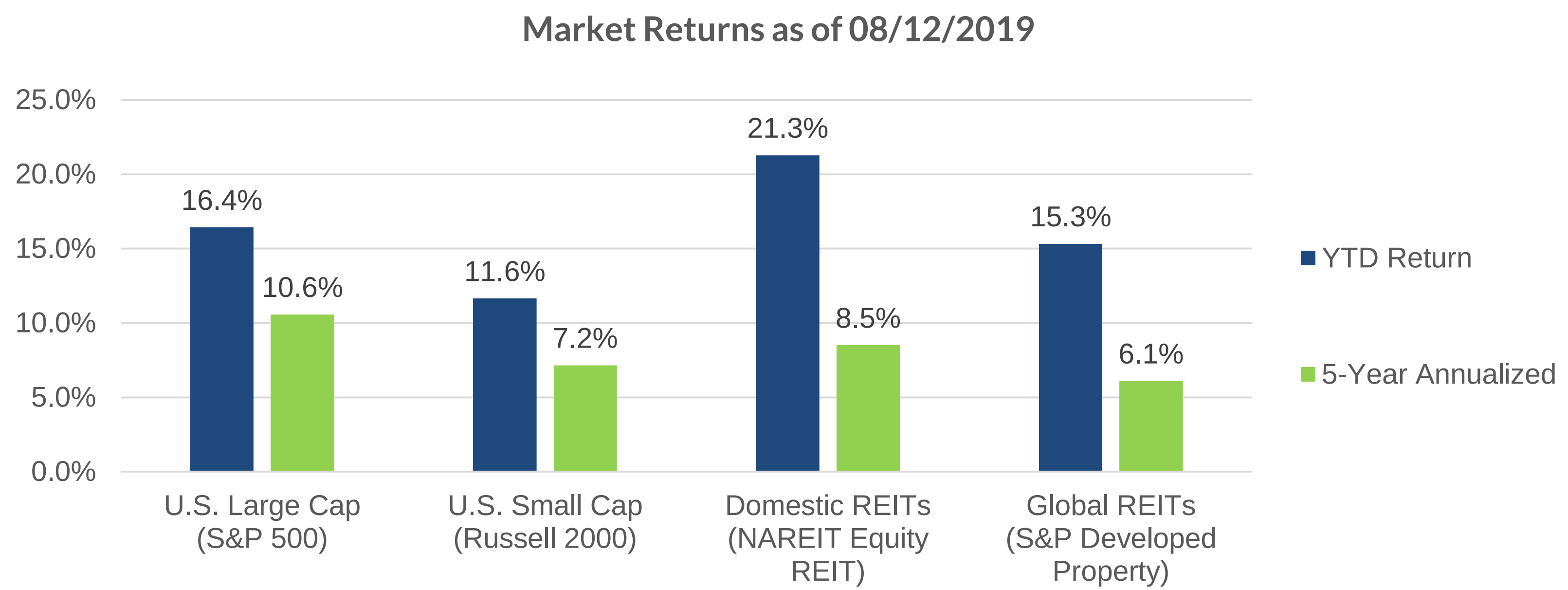
$12,200 Single
$18,350 Head of Household
$24,400 Married Filing Jointly
	• Medical & Dental Expenses (in excess of 10% of AGI)
	• State & Local Taxes ('SALT' Deduction) (now capped at $10,000)
	• Home Mortgage Interest
	  o Pre-12/15/2017 mortgages, deductible for mortgages up to $1 million
	  o Post-2017 mortgages, deductible for mortgages up to $750k
	• Investment (Margin) Interest
	• Charitable Gifts
	• Casualty & Theft Losses ($100 deductible per loss event, 10 percent AGI exclusion)

Individuals who have significant taxable income at the state level and/or who have significant property taxes now have a much different itemized deduction picture, relative to pre-2018.

Charitable Giving

- While many taxpayers wait until year-end to complete charitable giving, individuals may consider current gifts given strong YTD-2019 market gains. Market volatility has increased over the past several months, though many asset classes are still holding onto significant gains for the year.

- Individuals may consider gifting *long-term* appreciated securities rather than cash. From an asset class standpoint, U.S. equities and REITs are likely among the best candidates to gift.



Note: Information has been obtained from a variety of sources believed to be reliable though not independently verified. Past performance does not indicate future performance. An investment cannot be made directly in an index.

Accelerated Charitable Giving

Taxpayers should evaluate if a portion of charitable giving would not produce a tax benefit due to significant changes to the standard deduction and itemized deductions (following the Tax Cut and Jobs Act).

In such a case, a taxpayer might benefit from **accelerating ("bunching") charitable gifts** to maximize itemized deductions in a single tax year while taking the standard deduction in other years.

Scenario #1: Married Filing Jointly, Level Annual Charitable Giving

	2019	2020	2021	2022	TOTAL
Mortgage Interest	$9,000	$9,000	$9,000	$9,000	**$36,000**
State & Local Tax (SALT)	$10,000	$10,000	$10,000	$10,000	**$40,000**
Charitable Gifts	$30,000	$30,000	$30,000	$30,000	**$120,000**
Itemized Deduction Total	**$49,000**	**$49,000**	**$49,000**	**$49,000**	**$196,000**
Greater of: **Itemized Deductions *or* $24,400 Standard Deduction**	**$49,000**	**$49,000**	**$49,000**	**$49,000**	**$196,000**

Scenario #2: Married Filing Jointly, Accelerated Charitable Giving

	2019	2020	2021	2022	TOTAL
Mortgage Interest	$9,000	$9,000	$9,000	$9,000	**$36,000**
State & Local Tax (SALT)	$10,000	$10,000	$10,000	$10,000	**$40,000**
Charitable Gifts	**$120,000**	$0	$0	$0	**$120,000**
Itemized Deduction Total	**$139,000**	**$19,000**	**$19,000**	**$19,000**	**$196,000**
Greater of: **Itemized Deductions *or* $24,400 Standard Deduction**	**$139,000**	**$24,400**	**$24,400**	**$24,400**	**$212,200**

In this example, the couple's itemized deductions before charitable gifts totals $19,000. Since the MFJ standard deduction is $24,400, the first $5,400 of charitables (in this example) will not produce a tax benefit.

In Scenario #2, the couple accelerates charitable giving into a single year (2019) to maximize itemized deductions and takes the standard deduction in subsequent years (2020-2022). The composition of itemized deductions is the same under both scenarios, yet Scenario #2 produces a greater tax deduction of $16,200 over the four-year period.

This planning strategy can be particularly effective for charitably-inclined taxpayers without deductible medical expenses (>10% of AGI) and with no/minimal mortgage interest.

Charitable Giving

Donor-Advised Funds vs. Private Foundations

There are numerous considerations to evaluate whether a donor-advised fund or a private foundation (or a combination) might be an effective charitable giving vehicle. The table below provides an abbreviated comparison.

	Donor-Advised Fund	Private Foundation
Start-up Time	Immediate	May take several weeks or months
Start-up Costs	None	Legal & other fees
Initial Contribution/ Minimum	Varies by sponsor, but often as low as $5,000 - $10,000	No minimum, though due to start-up and ongoing administrative expenses, a larger starting balance (several million dollars) is generally advisable
Minimum Grant to Charity	Varies by sponsor, but often as low as $50-$100	No minimum
Ability to Give Anonymously	Yes, donor can choose whether to give publicly or anonymously	No, IRS Form 990 must report gifts
Ongoing Administrative Expenses	Varies by sponsor, but typically starts ~0.60%	Various tax & other expenses
Underlying Investment Expenses	Varies by sponsor, with some investment options as low as 0.03%	Varies based on investments chosen & advisor
Tax Deduction for Gifts	Up to 60% of AGI for cash gifts Up to 30% of AGI for long-term securities	Up to 30% of AGI for cash gifts Up to 20% of AGI for long-term securities
Annual Distribution Requirement	None	IRS requires minimum 5% annual distribution based on prior year's net average assets
Tax Reporting	Handled by the sponsor; donors do not report charitable grant activity	Responsible for tax filings and must annually file IRS Form 990
Excise Taxes	None	1-2% each year

Charitable Deduction Limits

	30% Limit Organization (ex. Fraternal Organizations, Private Foundations)	50% Limit Organization (ex. Public Charities, Donor-Advised Funds)
Cash	Cash Amount, Up to 30% of AGI	Cash Amount, Up to 60% of AGI
Non-Cash Donations	Value of Property, Up to 30% of AGI	Value of Property, Up to 50% of AGI
Short-Term Appreciated Securities (“Ordinary Income Property”)	Cost Basis, Up to 30% of AGI	Cost Basis, Up to 50% of AGI
Long-Term Appreciated Securities (“Capital Gain Property”)	Fair Market Value, Up to 20% of AGI	Fair Market Value, up to 30% of AGI
Qualified Charitable Distributions (QCD) from IRAs	• Available to taxpayers over age 70½ • Up to $100k per year to qualified public charities • The distribution *cannot* be made to donor-advised funds • Distribution neither counts as taxable income nor as a tax deduction	

For additional resources, see IRS Publication 526, *Charitable Contributions* and IRS Publication 561, *Determining the Value of Donated Property.*

Charitable Carryforwards

Per the IRS…

- "You can carry over any contributions you can't deduct in the current year because they exceed the limits based on your adjusted gross income.
- Except for qualified conservation contributions, you may be able to **deduct the excess in each of the next five years** until it is used up, but not beyond that time.
- A carryover of a qualified conservation contribution can be carried forward for **15 years**.
- Contributions you carry over are subject to the same percentage limits in the year to which they are carried."

Note that, when calculating the charitable deduction for a given year…
…current year gifts are used first, after which the charitable carryforward applies.

Taxpayers using an accelerated gifting strategy should be reasonably certain that they will be able to fully use (deduct) their charitable carryforward total within the next five tax years.

For additional resources, see IRS "Tax Map" on Charitable Deductions
https://taxmap.irs.gov/taxmap/pubs/p526-005.htm

Disclosures

This report is intended for the exclusive use of clients or prospective clients of New England Investment & Retirement Group, Inc. Content is privileged and confidential. Any dissemination or distribution is strictly prohibited. Information has been obtained from a variety of sources believed to be reliable though not independently verified. Past performance does not indicate future performance. All information contained herein is believed to be correct but accuracy cannot be guaranteed. Past returns are not indicative of future results. Comments and general market related projections are based on information available at the time of writing, are for informational purposes only, are subject to change without notice, and may not be relied upon for individual investing purposes. NEIRG and its employees do not provide legal advice and do not provide tax advice outside of the advice given in relation to financial planning and asset management services. NEIRG maintains the necessary notice filings, registrations and licenses with all appropriate jurisdictions.