

# GERSTEIN TAX SERVICE

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## Act Before Hitting The Crossroad Of Fiscal And Tax Reality

**T**he United States Government's Covid aid to individuals and businesses is expected to raise the nation's debt to about \$28 trillion. For high-earning and high-net worth individuals now is your last chance to act before higher taxes are expected to be enacted by the new administration. Here's what you need to know:



The \$6 trillion in Covid aid and stimulus adds to the \$22 trillion federal debt outstanding, incurred to pay for Social Security, Medicare, Medicaid, and other programs, and years of widening annual federal budget deficits. The nation's debt is about equal to current annual gross domestic product (GDP) but expected to swell to 127% of GDP, according to the Committee For A Responsible Federal Budget, a bipartisan think tank.

The U.S. has a low tax burden

relative to other major world economies and it is the world's largest developed economy. It possesses the financial strength to pay the suddenly larger-than-expected debt due to the Covid crisis. However, fiscal reality means taxes are going to rise in the near future.

With the U.S. approaching a major shift in fiscal and tax policy, high-income earners and high-net worth individuals are all but certain to be targets for tax hikes in the near future. Acting now – before the shift in tax policy is enacted into law – could result in significant tax savings in the near future and subsequent years.

Precisely which taxes will rise and by how much is yet to be decided. Some of the tax hikes may be retroactive and although no amount of planning will change that, professional tax planning advice could nonetheless result in significant tax savings for high-income and high-net



## The Tax Pendulum May Swing Back

**F**or most taxpayers and businesses, tax rules are about as favorable as they've been in decades, but the tax pendulum is likely to swing back the other way. You don't need to be a political pollster to know higher taxes are likely in the years ahead, with U.S. Government debt soaring and the recent changing of political parties. Now is the time to consider how a reset in tax policy is likely to affect you and your family.

Managing wealth requires tax planning. If investment management is the sizzle, tax planning is the steak.

Retirees, for instance, have a significant opportunity to create a lifetime tax-free income stream by converting to a Roth IRA. But determining whether a conversion makes sense and getting it done correctly requires careful advanced planning and forethought.

The difficulty in tax planning is that it is entirely dependent on your personal situation, including complex variables such as the needs of your children or other heirs, your charitable inclination, your age and health and a host of other personal preferences. It's personal.

There is no better time than the present to analyze your personal situation and consider tax minimization strategies.

Warm regards,  
**The Gerstein Tax Service Client Team**

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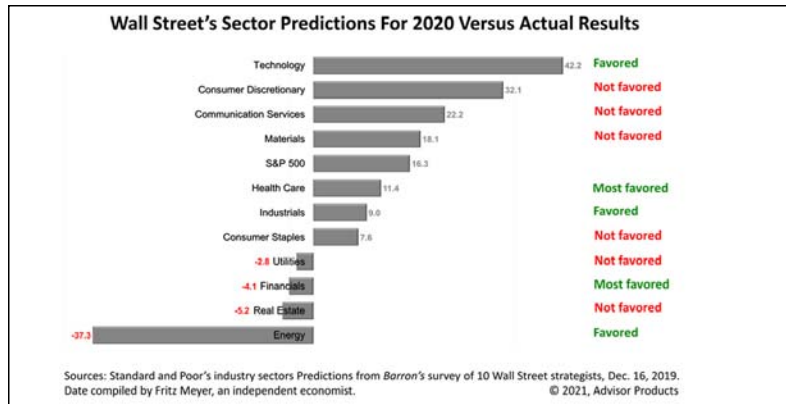
# An Important Investment Idea To Remember In 2021

Just before the beginning of every year, 10 top Wall Street investment strategists are asked by *Barron's*, the century-old financial magazine, to predict which industry sectors will outperform and underperform the Standard & Poor's 500 stock index for the year ahead.

Fritz Meyer, an independent economist, whose content is licensed by Advisor Products, has tracked the results of Wall Street's predictions in *Barron's* every year since 2007, based on the *Barron's* survey of Wall Street's top strategists. The accompanying infographics show Wall Street's inconsistent results for the 12 months ended Dec. 31, 2020.

In Dec. 2019, nine of the 10 strategists said financials would outperform. Sounds like a sure thing? Nope! Financial stocks lost 4% in 2020. That's a major miss, considering the S&P 500 – which is comprised of the 10 industry sectors, shot up by 16.3% in 2020.

Similarly, stocks benefiting from increased



Technology stocks, a perpetual favorite with Wall Street, were a good pick for 2020, as was health care. However, another favored sector, energy, lost a stinging -37.3% in 2020.

Based on the data compiled annually since 2007 by Fritz Meyer (an independent

discretionary spending by consumers were picked to outperform the S&P 500 by three strategists, while four predicted they would underperform. Although consumer discretionary was panned by more strategists than those who favored it, it was the second-best performing sector of 2020, with a spectacular 32.1% gain.

economist widely praised by independent financial professionals for many years), Wall Street's best minds are shown to be chronically inconsistent in predicting which industry stock sectors will be the best or worst performing during a particular calendar year.

An important investment idea to

remember in 2021 is this: Strategic investing is not preoccupied with predicting what happens tomorrow or in the next 12 months.

Wall Street pundit's predictions make great magazine covers but have nothing to do with investing strategically over the long run. ●

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Communications Services	Utilities	REITs
RBC Capital Markets	-			+		+					+
Vandri Research		-	+	+	+						-
T. Rowe Price	-			+	+						
Novos				+	+	-		-			
State Street	-			+	+		+			-	-
J. P. Morgan		-	+		+	+		+	+	-	-
Citi	+	-	+	+	+	+	+			-	-
Morgan Stanley	-	+		+				-			+
Blackrock	+		-	+	+		+	-			+
BoFA Securities	+	-		+		+		-		+	-
Net (+/-)	-1	-3	+2	+9	+7	+3	+2	-3	-1	-1	-2
Actual 2020	+32%	+8%	-37%	-4%	+11%	+9%	+42%	+18%	+22%	-3%	-5%

Sources: Standard and Poor's industry sectors Predictions from *Barron's* survey of 10 Wall Street strategists, Dec. 16, 2019. Date compiled by Fritz Meyer, an independent economist. © 2021, Advisor Products

## Test Your Knowledge Of Urgent Wealth Management Issues

Do you know what's happening at this pivotal moment in U.S. financial history? Take this quiz to find out.

1) More than two-thirds of financial professionals surveyed by a leading continuing education website say the odds of a 12.4% hike in 2021 on high-income earners are greater than 50/50.

- a) True
- b) False

2) Forty-five percent of financial professionals say there's at least a

50/50 chance that the estate tax will be expanded in 2021.



- a) True
- b) False

3) Financial professionals predict that millions of Americans are about to get slammed with much higher taxes unless they act by the end of the year.

- a) True

# Seven Steps To Get Ready For Your Retirement

**A**re you among the millions of Baby Boomers counting down the days to retirement? Before you move into the next stage of life, it's important to get all of your financial ducks in line. To prepare yourself, consider these seven practical suggestions.

**1. Rebuild the budget.** You've probably been living on a monthly budget that takes into account your usual expenditures and income. But that's about to change in a big way. For example, once you stop working, your expenses for a business wardrobe and commuting will also end, but so will the regular paychecks you've been living on.

Come up with a new plan. Identify what you expect to have coming in and going out. Remember that you won't be able to rely on 401(k) deferrals to reduce your taxable income after retirement, but you should still keep saving.

**2. Zone in on a homestead.** You could be planning to pull up stakes and move to a smaller home, perhaps downsizing from the place where your kids grew up and you might hope to end up in a warmer climate or in a less expensive area (or both). Or perhaps you're contemplating a move to a retirement community. But this kind of upheaval isn't for everyone, and you just might decide to stay put. In any event, your choice will affect numerous other

aspects of retirement.

Also, don't assume that you and your spouse share the same vision. If you haven't talked about it yet, bring up the subject before you call it quits.

**3. Review your investments.** As you head into the home stretch before retirement, compile a list all of the investment assets you own, including amounts parked in taxable accounts, bank savings or checking accounts, and tax-favored retirement accounts such as 401(k)s and IRAs. Consider whether you will want to keep retirement plan assets where they are when you retire or consolidate them into other accounts. Similarly, consider the best use of life insurance policies.

One thing to think about is whether to convert your traditional IRAs to a Roth IRA. Although the conversion is taxable, your future withdrawals from the account will normally be tax-free. Check with a professional to crunch the numbers.

**4. Settle on Social Security.** If you retire before full retirement age (FRA)—age 66 for most Baby Boomers—you'll receive less in monthly Social Security benefits. You can apply for benefits as early as age 62. Waiting until after you reach FRA, on the other hand, can result in bigger monthly benefits. The longer you wait, until you turn 70, the larger your benefit checks will be.

But if you and your spouse will both

receive Social Security payments, there will be other factors to consider. For instance, a higher-earning spouse might wait longer to claim benefits to provide greater protection for a surviving spouse if the higher-earning spouse dies first.

## **5. Learn all about Medicare.**

Usually, retirees opt to be covered by Medicare once they become eligible at age 65. But you will have a number of options to consider, so it's best to familiarize yourself with the key elements of Medicare before then. Estimating your future out-of-pocket costs, including premiums, deductibles, and prescription drug costs will help you decide which Medicare benefits to opt for and whether you'll need to supplement Medicare with coverage from a private insurance plan. Try to investigate all of the possibilities before the time comes to make your decisions.

## **6. Develop a draw-down strategy.**

Control the distribution of funds in your retirement by deciding which accounts you want to tap first. Although everyone's circumstances are different, often the best plan is to withdraw funds from your taxable accounts first (because you'll owe only capital gains taxes, which are usually much lower than taxes on distributions from 401(k)s and traditional IRAs), then from those other tax-deferred accounts, and finally from your Roth IRAs. This sequence enables you to benefit from tax-free compounding of investment income within a Roth for as long as possible.

But taxes aren't the only consideration. You may have other reasons for withdrawing funds from some accounts and holding onto others.

**7. Meet with your financial advisor.** As you can see, you'll be facing some difficult decisions during your countdown to retirement, and the financial consequences can be significant. But you don't have to do it all by yourself.

Schedule a meeting with your advisor to assess and review your situation well before your expected retirement. The countdown to retirement won't be as nerve-racking if you're well prepared. ●

b) False

**4) Assuming the 12.4% payroll tax increase proposed by President Biden does indeed go into effect, realizing income prior to that date could save business owners, as well as other professionals, tens of thousand of dollars in taxes.**

a) True  
b) False

**5) President-Elect Biden's tax plan would slash the \$11.58 million currently exempt from estate taxes to:**

a) \$1.1 million.

b) \$3.5 million.  
c) \$7.5 million.  
d) zero.  
e) None of the above.

Answers: 1-a; 2-a; 3-a; 4-a; 5-b

# Swap Munis To Your Tax Advantage

**Y**ou probably already know about the tax advantages of municipal bonds. The income generated by “munis,” as they’re often called, is normally exempt from federal income tax, and it may not be taxed by your state, either, if your state issued the bonds. Moreover, income from munis doesn’t count toward the 3.8% tax on net investment income (NII). That may help you avoid or reduce the NII tax.

But there’s yet another tax-saving aspect of munis that often is overlooked. If you “swap” munis in the secondary market, you can generate a loss from the transaction. That loss, like other investment losses, can offset capital gains and as much as \$3,000 of ordinary income. This strategy may be especially valuable if you realized short-term gains during the tax year in question.

To get those benefits, investors often swap munis at the end of the year, when they have a clear picture of the tax consequences. But this strategy can be implemented at any time. And if you wait until the year is drawing to a close, it may be harder to find a

suitable match.

To be technically accurate, a muni swap is actually a simultaneous sale and purchase of bonds. In other words, you sell a muni whose current value is down from what you paid for it while buying another muni with similar investment characteristics—for example, the same face value. When both parts of the exchange are complete, you’re in essentially the same investment position as you were before the swap, but now you have a current tax loss on the books. This could work even better if the muni you acquire has a higher interest rate than the bond you’re trading away.

To see how this might work, consider this hypothetical example:

Suppose you bought an Eastern State muni years ago for \$10,000. The bond’s current value is \$7,500, it will mature in 15 years, and it has a 4% interest rate. Other investment activity

during the year has left you with a \$2,500 short-term capital gain. As a result, you decide to swap the Eastern State muni for a Western State muni that also has a face value of \$10,000. The Western State bond also is currently valued at \$7,500, but it matures in 20 years and has a coupon rate of 4.5%.

After the swap, your \$2,500 capital loss offsets your net short-term capital gain for the year. In your 39.6% tax bracket, this saves \$990 in tax (39.6% of \$2,500). Plus, you’re now in line for more annual income. Instead of earning \$400 in tax-free interest

each year, you’ll get \$450. When the Western State bond matures 20 years down the road, you’ll owe tax on the \$2,500 difference between the price you paid for the bond and its face value, but that’s a long way off. You might even swap munis again to head off that tax. ●



## Fiscal And Tax Reality

*(Continued from page 1)*

worth individuals.

President Biden campaigned on a plan for increasing the payroll tax on select employees by adding a new 12.4% tax on those with wages of more than \$400,000. Also planned is a hike in the top income tax rate, from the current 37% rate to 39.6%. Doctors, dentists, senior managers, business owners and other high-earning professionals will be affected if these tax two income tax hikes are enacted.

Meanwhile, the

exemption from estate tax of \$11.7 million – \$23.4 million for a married couple – is almost certain to be slashed to \$3.5 million – \$7 million for a couple, under Mr. Biden’s tax plan. If this change is enacted, the estate tax will be expanded to hit millions of families.



In addition to targeting high income earning and high net worth individuals, tax compliance by the IRS is expected to be toughened. It’s a way the Government can raise taxes without going to Congress.

You may not be able to avoid higher taxes under the new tax rules

expected to be enacted. Tax planning is highly personal because everyone’s timing, assets, income, and family situation is unique, and the precise law changes are not yet known. But enough is known about what’s ahead to recommend being proactive about tax planning right now. ●