GERSTEIN
TAX SERVICE

Spring 2020 www.gersteintaxservice.com (718) 499-8352

Navigating Required Minimum Distributions

When you are halfway through your 72nd year on the planet, U.S. law says you must start taking money out of IRAs, SEPs and SIMPLE plans as well as 401(k), 403(b) and other U.S. Government qualified retirement plans. Only a Roth IRA account, which you fund with after-tax dollars, is exempt from federally-required minimum distributions (RMD).

From Uncle Sam's perspective, it's only fair to tax you; you avoided paying tax on money you placed in a non-Roth IRA account, and he wants his cut. From your perspective, it's time to maximize your life savings by paying as little as possible in income tax on your withdrawals.

When RMDs kick in at age 72, not following the rules can cost you real money. With a bit of strategic financial planning, however, you can turn the rules to your advantage.

Here are five tips that can add up to substantial savings in navigating the withdrawal maze:

Delay your first payment. You actually don't have to make your initial withdrawal in your 72nd year. You can delay it up to April 1st of the following year. So, if you hit 72 in October 2020, you could delay your withdrawal to March 31st, 2021. The downside is that, in 2021, you must pay taxes on two RMDs. That second withdrawal must occur by year-end of 2021. Planning it matters!

Forgo taking your 2020 RMD. With the recent passing of the CARES Act in response to the COVID-19 outbreak, the government is suspending all RMDs for the 2020 tax year. This waiver includes any retirement account

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This Too Shall Pass

We hope this letter finds you and yours well during this difficult time. Despite the obstacles presented by the virus, we remain fully operational – thanks to our technology. We are suspending in-person client meetings for the time being, until the virus danger passes. If you're used to meeting us in-person, we encourage you to utilize one of our electronic methods of sending us your documents – such as our Client Portal, email and fax. Prefer to hand-off your documents to us? We can arrange an in-person drop-off at our Brooklyn location, which is by appointment only.

If you want to chat with us, we'll arrange a phone conversation or a "face-to-face" videoconference; our clients are already finding them effective ways to stay in touch.

And yes, the filing deadline for federal-income-tax returns has been extended to July 15th. Still, we'd advise you to attempt to file by the old April 15th date—certainly if you're due a refund, but even if you owe taxes: Why not get tax worries behind you early?

Finally, as always, we thank you for your trust. If you send us a referral, we'll give you a $25 credit on our fee (or donate it to a charity of your choice), plus our traditional bag of hearty cashews. And if you know someone in need, we'll be happy to work with them pro bono.

We'll all get through these challenging times, and we'll be stronger for it.

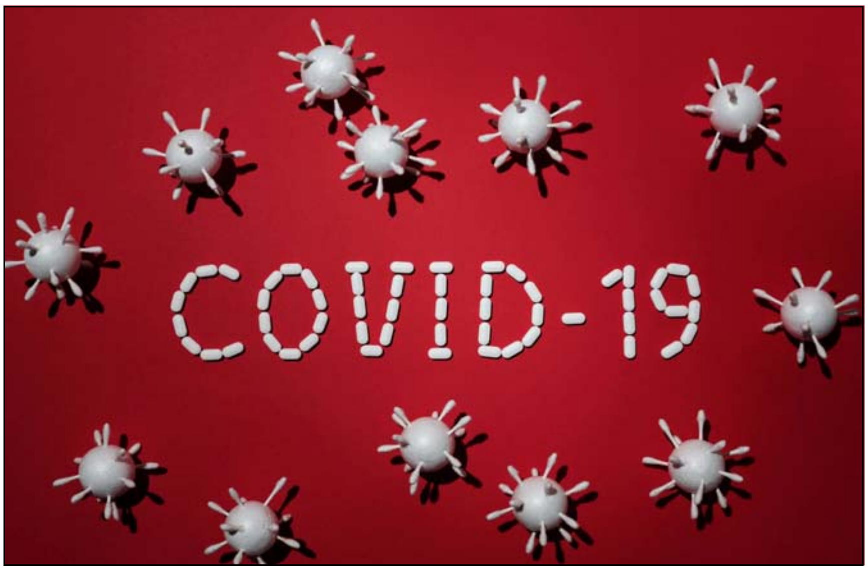
With warm wishes,
The Gerstein Tax Service Client Team

Harsh Truth: Covid-19 Correction Is A Tax Planning Opportunity

The human toll of Covid-19, in sickness, suffering, and death is incalculable. Projections from a variety of reputable sources indicate the transmission and fatality rate can paint a bleak picture. The ultimate toll remains unimaginable.

A harsh truth, however, for millions of Americans, is that the stock market plunge presents a tax and financial planning opportunity. Here's a short list of situations in which you want to consider proactive tax planning after the recent drop in stock prices.

Next-Gen Strategy. If you have beneficiaries other than a spouse, converting traditional IRA or 401 (k) assets to a Roth IRA suddenly became a serious consideration, on January 1, 2020. That's when The SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) became effective. SECURE Act made Roth conversions advantageous to many more Americans. Converting to a Roth can be a way to manage your tax bracket, to reduce taxes owed on converting to a Roth IRA. Unlike a traditional IRA, income from a Roth account is not taxed under federal law. While you must pay income tax on the amount you convert from an IRA or 401(k) to a tax-free Roth account, your beneficiaries will benefit.



Wealth Transfers. For individuals with taxable estates, low interest rates make it smart to consider the use of specially designed trusts, such as a:

- Grantor Retained Annuity Trust (GRAT)
- Intentionally Defective Grantor Trust (IDGT)
- Generation Skipping Trust (GST)

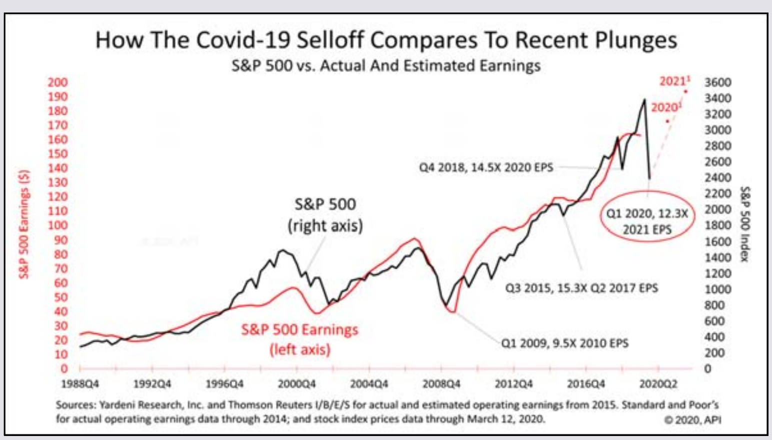
Estates In Administration. If you are a beneficiary of an estate in the administrative process of distributing assets, the change in asset values may have created a tax-loss harvesting opportunity. In addition, the lower asset values make it prudent for spousal beneficiaries of a qualified retirement account under administration to evaluate a partial or complete disclaimer.

Bottom Lines. Covid-19's ultimate price is unimaginable, but the correction it's caused in the stock market clearly spawned new strategic tax planning opportunities for individuals in situations described above. Tax advice in these situations requires knowing your personal situation. If you have a question about your personal situation, please contact us. ●

How Much Lower Can Stocks Go?

No one knows if the stock prices that recently bottomed could go lower. We do know that profits ultimately drive stock prices. So here's the picture of 2020 and 2021 profit expectations in the context of recent market panics.

Significantly, the virus crisis currently prices stocks at a 12.3 multiple of earnings expected for 2021. Every $1 of profits expected to be earned in 2021 currently accounts for $12.30 of the average Standard & Poor's 500 company's share price. How does this compare to market panics in the recent past?



After the world financial system nearly collapsed in 2008, stocks in the first quarter of 2009 traded at 9.5 times their expected 2010 earnings. That was a more frightening crisis, however, because the worst case scenario of the pandemic can be statistically modeled and its financial economic effects can be estimated. However, the end of the world financial system has no statistical basis for

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10 Common Questions About Social Security

If you're nearing retirement or you recently retired, you probably have plenty of questions about Social Security retirement benefits. Here are answers to 10 common queries posted online by the Social Security Administration (SSA).

Q1. How do I obtain a replacement Social Security card?

A. You can get an original social security card or a replacement card for free if yours is lost or stolen. Generally, all you have to do is submit the request to the SSA online. However, in some states, you must show additional documentation. Visit the SSA website for more information.

Q2. How do I change or correct my name on my Social Security number card?

A. If you're legally changing your name because of marriage, divorce, court order, or for any other reason, promptly notify the SSA and obtain a corrected card. This service is also free. Simply follow the procedures for getting a replacement card.

Q3. What are the ramifications if I receive Social Security retirement benefits while I'm still working?

A. If you haven't reached full retirement age (FRA) and you earn more than a specified annual limit, your benefits are reduced under this "earnings test" as follows:

- If you're under FRA for the entire year, you forfeit $1 in benefits for every $2 you earn that exceeds the annual limit. For 2020, that ceiling is $18,240.
- In the year in which you reach FRA, you forfeit $1 in benefits for every $3 earned above a separate limit, but only for what you earn before the month in which you reach FRA. For 2020, this limit is $48,600.

Beginning with the month in which you reach FRA, you can receive benefits that won't be affected by whatever you may earn.

Q4. What is my FRA?

A. It depends on the year in which you were born. The FRA gradually increases from age 65 for those born in 1937 or earlier to age 67 for those born in 1960 and after. The FRA for Baby Boomers born between 1943 and 1954 is age 66.

Q5. Can I collect benefits if I retire before my FRA?

A. Yes. You can retire and apply for benefits as early as age 62, but your monthly benefits will be reduced by as much as 30% in that case.

Q6. Are benefits increased if I wait to apply until after my FRA?

A. Yes. You can receive increased monthly benefits by applying for Social Security after reaching FRA. The benefits may increase by as much as 32% if you wait until age 70. After age 70, there is no further increase. Visit the SSA website to figure out the exact amount of your "early" and "late" benefits.

Q7. How do I apply for Social Security retirement benefits?

A. You should apply for retirement benefits three months before you want your payments to start. The easiest and most convenient way to apply is to use the online application. Note that the SSA may request certain documents to verify your eligibility.

Q8. How do I handle benefits for an incapacitated person?

A. If your elderly parent or someone else who is entitled to receive Social Security benefits needs help in managing those benefits, contact your local Social Security office about becoming that person's representative payee. Then you assume the responsibility for disbursing the funds for that person's benefit.

Q9. Who is entitled to receive Social Security survivors' benefits?

A. A spouse and children, or both, of someone who has died may be in line for benefits based on that person's earnings record. Visit the SSA website for more details. Survivors must apply for this payment within two years of the date of death.

Q10. Are Social Security benefits subject to tax?

A. Yes, but not everyone is liable. You are taxed on Social Security benefits under a complex formula if your provisional income (PI) exceeds the thresholds within a two-tier system. PI is the total of (1) your adjusted gross income (AGI), (2) your tax-exempt interest income, and (3) one-half of the Social Security benefits you received.

- For a PI between $32,000 and $44,000 ($25,000 and $34,000 for single filers), you're taxed on the lesser of one-half of your benefits or 50% of the amount by which PI exceeds $32,000 ($25,000 for single filers).
- For a PI exceeding $44,000 ($34,000 for single filers), you're taxed on 85% of the amount by which PI exceeds $44,000 ($34,000 for single filers) plus the lesser of the amount determined under the first tier or $6,000 ($4,500 for single filers).

In many cases, these answers will lead to even more questions. The SSA website is helpful, but you may need additional guidance for your personal situation. Don't hesitate to contact us for assistance. ●

measurement.

The 12.3 Price-Earnings (P-E) multiple on 2021 earnings is much lower than the low reached during the market selloff of June 2015 through June 2016, when Chinese growth slowed, oil prices plunged, Brexit threatened the Europe Union, and Greece defaulted on its debt. As scary as that period was, the P-E multiple dropped only to 15.3 times second-quarter 2017 earnings versus the 12.3 multiple on earnings expected in 2021.

The dotted red line shows the recent price of the S&P 500 is sharply undervalued compared to the earnings expected in 2021. The price of the S&P 500 would have to rise sharply if earnings at the end of 2021 come in as expected. This is not a forecast or prediction, but it is what the numbers show.

The P-E multiples on the S&P 500 are based 2019's actual earnings of $163.00 per share, and estimates for 2020 earnings of $172.90, and $193.72 for 2021, according to data from Yardeni Research, Inc. and Thomson Reuters I/B/E/S for actual and estimated operating earnings from 2015, as well as Standard and Poor's for actual operating earnings data through 2014 and stock index pricing data through March 12, 2020.

Even if 2020 is much worse than expected by Wall Street analysts, stock valuations are near an all-time low in modern history. ●

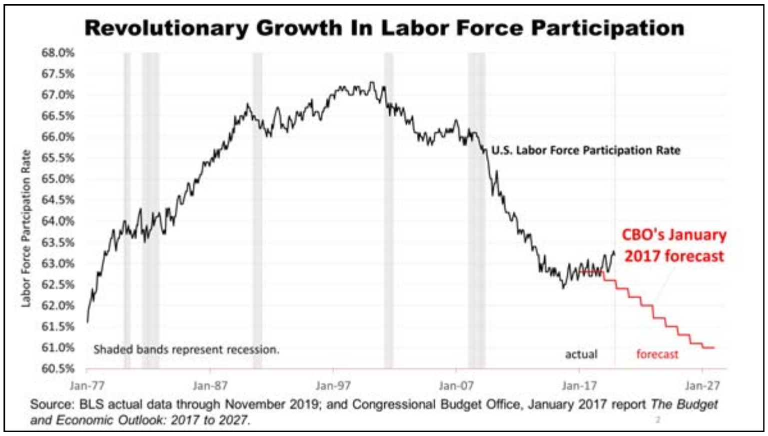
Boomers Working Past Age 65 Are A Surprise Boost

Americans over age 65 are staying in the labor force more often than expected, brightening the U.S. economic forecast and the outlook for U.S. stocks.

Turns out, the offspring of The Greatest Generation, those who served in World War II, deserve some respect, too. Baby boomers are characterized by a strong work ethic, and they are electing to work longer than government experts expected. Boomers are a key reason the economy continues to grow even as the labor market has tightened.

The Congressional Budget Office's long-term growth forecast did not count on so many boomers working past age 65. With new jobs continuing to be filled by a larger than expected number of workers in the 65-plus age group, U.S. GDP (gross domestic product) is benefitting from an unexpected boost, and it's no small thing.

Labor force growth is a key fundamental in math economics: total growth of the U.S. economy is the product of the labor force growth rate and productivity growth. The unexpected addition of workers in the labor force improves forecasts for economic growth in the years ahead.



Source: BLS actual data through November 2019; and Congressional Budget Office, January 2017 report *The Budget and Economic Outlook: 2017 to 2027.*

Historically, the economy is unable to continue to create new jobs because we run out of people to fill them. Newly-created positions drive wages higher, increasing inflation, and then the Federal Reserve makes a monetary policy mistake, which results in two consecutive quarters of shrinkage in economic activity, aka, a recession. But these times are different.

This chart captures a snapshot of Americans choosing to continue working past age 65 more often than expected by forecasters. The Congressional Budget Office, a federal agency widely recognized as an authoritative non-partisan source, in January 2017 forecasted a decline in the labor force along the lines in red. The stair-step decline in the labor force that the CBO expected is not happening! The labor force participation rate has continued to grow since 2017, when it was expected to flatten and start a long decline, and no one is certain how long the trend will continue.

The labor force participation rate is reflecting the improved longevity of Americans, which the CBO economists did not figure into their estimates of the future. If the trend since 2017 were to continue, the U.S. labor force could contribute a totally unexpected boost of growth in consumer spending in the years ahead, and consumers account for 70% of GDP. Higher consumer spending boosts earnings of corporate America and that's good for stocks. ●

Navigating RMDs

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subject to RMDs, such as IRAs, 401(k)s, Roth 401(k)s and inherited accounts. Have you already taken your RMD for 2020? You may be able to rollover this distribution back into your retirement account, as if it never happened. As of the time of this newsletter posting, the legislation is still very new and we expect additional guidance to be provided.

Where the money comes from in your account is up to you. You don't have to draw from every single fund you own to make RMDs. You could take equal amounts from every fund in your IRA, yes, but you can also withdraw from the best-performing funds. Similarly, if you own several IRAs, you could withdraw from each of them, or you can add up all of your assets from the separate IRAs and take a large single withdrawal from one of them.

Pay taxes later. Your plan provider can withhold whatever percentage amount you specify before distributing the remainder to you. That's easy, but it deprives you of the full use of your RMD. Alternatively, the provider could send you all the money intact. At tax time, you must pay what you owe the United States. Meanwhile, you have use of your entire RMD to invest with or whatever you want. Again, it just requires a little planning and the savings can add up when this tip is applied in concert with the other strategic planning tips on this list.

If you haven't left the labor force, you don't have to withdraw from your employer's 401(k) or other retirement plan. An exemption from RMDs is available if you are still working. To qualify for the "still-working exemption," you must own no more than 5% of the company for which you work and be employed throughout the entire year. While most qualified plans permit this exemption, it's best to confirm with your employer before doing so.

Implementing these tips requires knowing the rules regulating required minimum distributions and devising a strategic lifetime plan for maximizing retirement income in your personal situation. If you have questions or would like us to walk you through in more detail, please give us a call. ●

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