GERSTEIN
TAX SERVICE

Act By The End Of 2020 For A Major Retirement Income Tax Break

A confluence of events have suddenly aligned to create a major tax planning opportunity for individuals who are currently taking IRS-mandated required minimum distributions (RMDs) from an individual retirement account or are about to start taking RMDs.

Here's where the unusual alignment of factors takes a special twist. Instead of skipping your 2020 RMD and simply leaving it in your retirement account , you can withdraw all or part of it, pay the income tax on the withdrawal amount and use that amount to fund a tax-free Roth IRA!

A provision of the CARES Act – the Covid crisis emergency aid law in effect since March 27, 2020 -- lets you skip your required minimum distribution in 2020. Since many individuals of RMD-age (72 and above) have been remaining homebound during the Covid crisis and are spending less, skipping all or part of an RMD is easy and often makes sense over the long term. Skipping an RMD in 2020 would leave that money in the IRA to compound tax-free over a longer time period.

Distributions taken as RMDs from pre-tax retirement accounts are always taxable whereas distributions from a Roth IRA are never taxable! Converting assets to a Roth IRA in this manner could provide tax-free income for years, and when you die, to your spouse and your IRA beneficiaries for the life of the Roth IRA.

2020 also happens to be a particularly good year to convert assets from a traditional pre-tax retirement

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Taking Socially Responsible Investing To The Next Level

Socially responsible investing has come a long way over the past decade. It used to be viewed as a way for relatively small numbers of investors to divest themselves of stocks in industries whose practices they opposed. Tobacco, alcohol, and gambling companies were common targets. Now, this approach has broadened its appeal, often with a focus on environmental, social, and governance (ESG) policies of companies. And these days, screening tools for socially responsible funds tend to be as much about finding companies with positive records as about excluding those with objectionable qualities.

As interest has grown, there has been an enormous expansion in the number and variety of mutual funds and exchange traded funds (ETFs) across the spectrum of what is now often called impact investing.

And whereas old-style socially responsible investing often meant sacrificing returns, these days many such funds perform as well or better than the overall market, helped by the same kinds of analysis that applies to other kinds of investments.

That's not to say ESG investments have some magical formula. Investors run the same risks as they do with other equities and there are no guarantees against losses, especially in a declining market. Consider all aspects to find the investment mix suitable for your situation.

Warm regards,
The Gerstein Tax Service Client Team

Tax Planning For The Long Run

After paying a terrible price in lost lives, suffering, and grief, the Covid economic crisis will pass, along with emergency tax relief in the history-making $2.2 trillion CARES Act of 2020. The tax law with us permanently, and the rules that will be affecting you every year for years to come, is the SECURE Act.

Enacted by the US government in December 2019 the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE) Act mandates non-spouse beneficiaries of IRAs deplete their accounts within 10 years of inheriting a federally qualified retirement account. A non-spouse beneficiary may be your child, grandchild, nephew or niece, or other family members you want to support after you're gone.

New Retirement Income Planning Choices. SECURE Act encourages using more lifetime income annuities to secure retirement. While this may be good generally, there is one huge caveat: annuities can be expensive. Lifetime income backed by an insurance company's creditworthiness makes for a great sales pitch but are best advised on by a professional who places your best interest above all else, including the sales commissions they will earn.

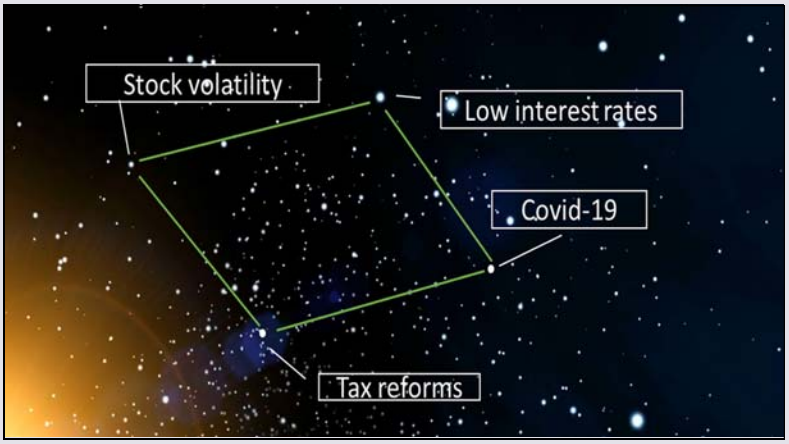
Business Owner Tax Breaks. SECURE Act also makes it less expensive and easier for business owners to establish and administer "safe harbor" retirement plans, including, boosting the "gig economy," and making part-time workers eligible for employer retirement plans.

Delaying Distributions Until Age 72. Postponing required minimum distributions (RMDs) 18 months is another idea you may want to consider. The SECURE Act lets you delay RMDs on IRAs, effectively extending the benefit of compounding. Instead of requiring you to begin depleting your retirement account at age 70½, you can now delay it until age 72. This small change can amount to big bucks because your IRA can compound without being taxed for an extra 18 months. Deferring taxes for 18 months on a large IRA is a no-brainer, if you can afford it. Implementing this step in your retirement income plan should be part of your overall strategy to outlive your money and create a legacy for your family.

The SECURE Act and other tax reforms passed before the CARES Act make tax and financial planning more important to individuals who are about to retire or who recently retired. Weighing SECURE Act's sweeping tax implications as well as Covid-19 emergency tax relief provisions in CARES Act making Roth IRA conversions more attractive requires detailed knowledge of your personal situation. Please contact us with your questions. ●

A Constellation Of Facts Squarely Aligns With 2020 Roth IRA Conversions

An unusual confluence of financial, tax and investment events make converting traditional retirement account assets to Roth IRAs compelling in 2020 to retirees and those about to retire.



At a time when retirement income planning has never been so important to so many Americans, or as complex, retirees and those about to retire have a significant tax opportunity. A constellation of factors have aligned to make converting assets in traditional retirement accounts and IRAs to Roth IRAs suddenly more appealing.

Background. Tax laws affecting retirement income were reformed massively and frequently just before the virus crisis.

On January 1, 2020, just before the Covid-19 outbreak hit the U.S., a sweeping law correcting inequities in 401(k), 403(b), and other federal retirement accounts, became effective. SECURE Act was a bipartisan tax reform law correcting inequities in

Tax Planning Amid The COVID-19 Epidemic

As of August 12, 2020, the US has had over 160,000 deaths from COVID-19, according to the John Hopkins University of Medicine. This number grossly exceeds the 58,209 Americans killed in the 14-year Vietnam War and the 54,246 American lives lost in the three-year Korean War. The human toll in sickness, suffering, and grief is unimaginable.

Almost overnight, the crisis has changed the financial and economic outlook. Change like this is frightening and brings new risks, but it also brings new opportunities. Here's a short list of what to do now.

Do Not Despair. As grim as things are, the models forecast an end to the epidemic. It's not a permanent condition. It will end. Different models and forecasts project various end dates for COVID-19 deaths, and there is also the risk of a second wave of the virus. Life may not be quite the same, for at least a couple of years and possibly longer, but life goes on. A survivor of the 1918 Spanish flu epidemic, according to The Wall Street Journal, said it took a couple of years before social, and, in turn, economic conditions returned to normalcy.

Stocks. The Standard & Poor's 500 lost about a one-third of its value from an all-time closing high on February 19 through the ultimate low on March 23 and it then has subsequently rebounded. Lower stock valuations may present a unique tax and financial planning opportunity. For example, if you own securities with large losses in a taxable portion of your portfolio, you might consider selling those assets at a loss. This concept is known as tax-loss harvesting. Losses on assets held for more than one year can be used to offset capital gains realized on other assets. So long as you do not buy securities that are identical or substantially the same, you can buy a similar asset to match your portfolio's risk level. The replacement asset will then have a lower cost-basis and more of your investment will ultimately be subject to favorable long-term capital tax treatment.

Roth IRA Conversions. Lower stock values may present an opportunity to convert some portion, or all, of a traditional IRA to a Roth IRA. Traditional IRAs are taxed as ordinary income upon withdrawal, while Roth IRAs are always tax free upon withdrawal. However, when you convert any portion of a traditional IRA to a tax-free Roth account, you must pay tax on the withdrawn amount at your current income tax rate. With asset values having been lowered by the bear market, the taxes owed on assets you wish to convert are commensurately lower, making the cost of converting to a tax-free Roth account less costly and lowering your tax bracket in the years ahead on withdrawals from the Roth IRA.

Paycheck Protection Program (PPP). On Friday, March 27, 2020, the Coronavirus Aid Relief Economic Security Act, a history-making $2.2 trillion stimulus law, allocating over $520 billion in loans to business owners in need, and the loans are to be forgiven if certain criteria are met. PPP is the primary relief program sponsored by the U.S. Government to aid business owners. Contact us if you have questions about how to proceed receiving loan forgiveness.

Wealth Transfers. For individuals with taxable estates, unprecedented 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 Currently 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 of inherited assets.

Stay In Touch. The strategic opportunities for individuals described above do not necessarily contemplate your unique personal situation. If you have a specific question about any of this, or how it may apply to you, please contact us. ●

retirement accounts qualified for favorable tax treatment under federal tax law. To complicate things, two years before SECURE Act, the Tax Cuts & Jobs Act, a total rewrite of federal tax laws, became effective January 1, 2018.

Amid the unprecedented flurry of tax reform laws, and while those laws were still being digested, the pandemic hit. Responding to the Covid crisis, the U.S. Government once more enacted new tax laws for individuals and businesses, in a massive $2.2 trillion emergency aid package.

Coincident with multiple layers of tax changes, pandemic economics forced yields to plunge to a low unprecedented in modern U.S. history, which, along with high stock volatility, drastically changed the math around Roth IRA conversions.

Retirees and those about to retire who have faithfully saved and are in strong financial condition have an extraordinary opportunity to plan strategically for the long run.

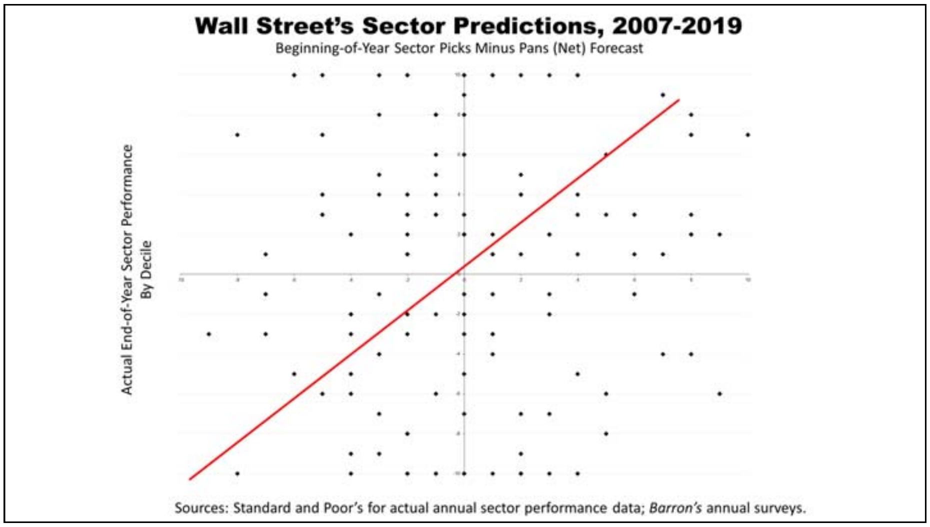
The unusual confluence of financial, tax and investment fundamentals conspiring to make Roth conversions more compelling presents an important financial planning decision that harbors some risk and requires personal advice beyond the scope of this article. If you have questions about your personal situation, please contact us. ●

Expect An Outbreak Of Financial Fraud

Predictions of a crash in commercial real estate are rampant, as are forecasts of explosive growth in tech and biotech. Should you believe them?

Every crisis spawns new sales pitches and outright frauds, and the unprecedented nature of the Coronavirus epidemic makes it harder to know what to believe. Here are some facts to keep in mind as financial gurus, Wall Street seers and outright fraudsters bombard shell-shocked investors with predictions of which sectors will prosper most in from the epidemic.

This scattergraph shows the history of the Wall Street strategist sector performance based on their predictions published in Barron's for the past 13 years. If Wall Street strategist predictions had been correct, the black dots would all fall along the red line or cluster around it. The randomness of the picks shows that Wall Street's predictions of the best sectors are not working.



This data was compiled by economist Fritz Meyer, a strategist at one of the world's largest investment companies for over a decade before going independent in 2009. We periodically share Mr. Meyer's updates to this chart and it's worth repeating amid these surreal times.

If Wall Street strategists' predictions had been correct, if Wall Street could predict which industry is doomed and which will prosper the most, then the black dots would all fall along the red line.

The randomness of the picks shows that Wall Street's top strategists' picks and pans, as published in Barron every year since 2009, were usually way off the mark. Past performance is not indicative of future results, but the Covid 19 epidemic does not suddenly make it easier to predict which industry sector will be best or worst in 2020.

Instead of trying to predict the future, rebalancing into undervalued sectors is a prudent choice. It's not as exciting as the stories spawned by Coronavirus financial schemes, but it can provide a sensible, low-expense choice for investors over the long run. ●

Act By The End Of 2020

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account to a Roth IRA. Why? Because when you withdraw assets held in a traditional IRA or other qualified pre-tax retirement account, you will owe income tax on the withdrawals. The unusual confluence of events making it possible for you to live on a lower income during the Covid crisis creates this unique tax saving opportunity for long-term investors who act before December 31, 2020.

With stock prices still off their all-time highs and continuing to suffer frequent and often vicious one-day drops, taking the opportunity to sell stocks in your retirement account and converting the proceeds into a Roth IRA makes particularly good sense. In addition to selling these stocks when they are relatively cheap, you would also be realizing the taxable income from the retirement account at a time when the Covid crisis has kept your expenses low.

Between now and the end of 2020, the unusual confluence of events makes it wise to evaluate skipping a required minimum distribution and converting to a tax-free Roth IRA. It is a major tax saving opportunity that you do not want to miss. ●

Gerstein Tax Service, LLC | 375 1st Street, Brooklyn, NY 11215 | Phone: (718) 499-8352 | clientservice@gersteintaxservice.com