MANAGEMENT & TAX CONCEPTS

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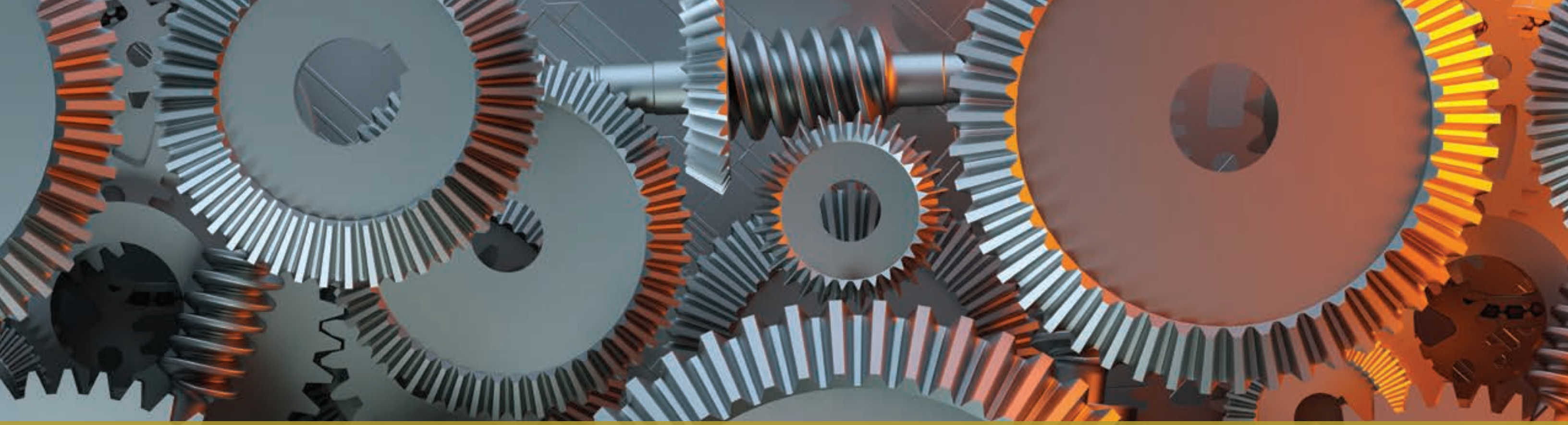

Shifting gears: Planning tips for retirement

Tax planning in retirement is just as important as it is during your working years. Strategies that reduce your tax burden can help increase the chances that your savings will last throughout your lifetime. Here are several tips for minimizing taxes during retirement.

CREATE A BUDGET AND AN EMERGENCY FUND

Estimate your expenses during retirement and take inventory of the various income sources at your disposal to pay them. Not only will this tell you whether your income will be sufficient to meet your planned expenses, but it will also help you determine when you'll need to tap various income sources.

Maintain enough cash or cash equivalents to cover unplanned expenses, such as major home repairs or unexpected medical bills. An emergency fund can help you avoid the need to tap tax-advantaged savings vehicles for these expenses.

PUT OFF SOCIAL SECURITY

You can pull the trigger on Social Security benefits as early as age 62 or as late as age 70. For most people, starting Social Security at age 70 is the best strategy. That's because for each year you wait beyond normal retirement age, your benefit increases by roughly 8%.

Tax-free capital gains is an option for some retirees

The U.S. tax code creates an opportunity for some retirees to enjoy tax-free capital gains. The tax rate on long-term capital gains for taxpayers in the lowest tax brackets is currently 0%. And before you dismiss this as an unlikely scenario, consider that in 2021 the 15% capital gains rate doesn't kick in until taxable income (not adjusted gross income) reaches $40,400 for single filers and $80,800 for married couples filing jointly. It's not unusual for the newly retired to have taxable income within these thresholds in the early years of retirement, before they start taking RMDs and collecting Social Security.

Suppose, for example, that a recently retired married couple has taxable income of $50,000. They sell $100,000 of stock they purchased for $40,000, generating a $60,000 gain. The first $30,800 of gain (the difference between the couple's taxable income and the $80,800 threshold) is tax-free and the remaining $29,200 is taxed at 15%, for an effective capital gains tax rate of 7.3%.

Plus, depending on your income level, up to 85% of your Social Security benefits may be taxable. By putting off benefits until your income is lower, you may be able to reduce the tax bite.

PAY ATTENTION TO RMDS

Tax-deferred retirement savings accounts — such as traditional IRAs, 401(k) plans and 403(b) plans — allow your money to grow tax-free until it's withdrawn in retirement. Distributions are subject to ordinary income taxes, so it's generally best to delay them as long as possible. Once you reach a certain age, however, you must begin taking required minimum distributions (RMDs).

To avoid significant penalties, it's important to calculate your RMDs (generally, your account balance divided by a life expectancy factor) and make sure you take them before the deadline each year. If you were born on or after July 1, 1949, your first RMD must be taken by April 1 of the year after you turn 72 and your second RMD must be taken by December 31 of the same year. After that, RMDs must be taken by December 31 of each year. (If you were born before July 1, 1949, substitute 70½ for 72.)

WITHDRAW SAVINGS IN THE RIGHT ORDER

To maximize tax efficiency, it's important to withdraw funds from various savings vehicles in the right order. If you're required to take RMDs, use those funds first to pay your expenses. Then, for additional expenses, it's generally preferable to take distributions in this order:

- Taxable accounts, such as brokerage and savings accounts,
- Tax-deferred accounts, and
- Tax-free retirement accounts, such as Roth IRAs, Roth 401(k)s and Roth 403(b)s.

Why? For one thing, distributions from taxable accounts often take the form of lower-taxed capital gains, while distributions from tax-deferred accounts are mostly ordinary income. Also, delaying distributions from tax-deferred and tax-free accounts maximizes tax-free growth.

YOUR UNIQUE TAX SITUATION

Everyone's situation is different, so it's important to identify strategies that will enhance your overall tax benefits. For example, if taking distributions strictly from taxable accounts would push you into a higher tax bracket, you may be better off withdrawing some of the funds you need from tax-free accounts to avoid this result.

However, if you find yourself in a low tax bracket in the early years of your retirement (before you turn 72), it may make sense to spend down traditional IRAs or other tax-deferred accounts (or convert a portion of their balances into Roth accounts) to take advantage of lower tax rates while reducing future RMDs. Your tax advisors can help you see the big picture and develop a plan to minimize taxes and make your savings last. •

An extended Paycheck Protection Program

The latest changes are beneficial for borrowers

Your business may have found a lifesaver in the Paycheck Protection Program (PPP), created last year for companies struggling with the economic tsunami caused by the COVID-19 pandemic. Now eligible businesses have another shot at economic relief, and the process is somewhat more inviting.

On December 27, President Trump signed the Consolidated Appropriations Act (CAA) into law, which extends, liberalizes and expands the PPP. The original PPP was established by the CARES Act. This second round permits eligible small businesses to take out loans and so-called second-draw loans if they took out PPP loans earlier.

You may have already applied for a second PPP loan. If not, you have until March 31, 2021, to submit an application to an eligible lender. Here are the most important things to know about the resurrected program.

TAKING A SECOND-DRAW LOAN

Second-draw loans are targeted at smaller and harder-hit businesses with 300 or fewer employees that have used up, or have plans to use up, the full amount of their initial PPP loans. The maximum second-draw loan amount is $2 million, and only one second-draw loan can be taken out.

To be eligible, a business must demonstrate at least a 25% decline in gross receipts in any quarter of 2020, compared to the corresponding 2019 quarter.

An eligible business can generally borrow up to 2.5 times its average monthly payroll costs for either the one-year period prior to submitting the loan or for the 2019 calendar year. However, businesses in the hard-hit accommodations and food service industries can borrow 3.5 times payroll costs.

EXPANDING WHAT QUALIFIES FOR LOAN FORGIVENESS

The CAA adds the following expenses to the list of qualifying costs that can result in PPP loan forgiveness:

- Eligible operations expenditures, which include payments for software, cloud computing, and human resource and accounting needs;
- Eligible uninsured property damage costs resulting from public disturbances that took place in 2020;
- Eligible supplier costs; and
- Eligible expenditures for worker personal protective equipment and eligible expenditures to help the borrower comply with COVID-19 federal health and safety guidelines or equivalent state and local guidelines between January 1, 2020, and the end of the national COVID-19 emergency declaration (whenever that takes place).

This expanded list of qualifying expenses is generally retroactive to Day One of the PPP. As before, the 60/40 rule applies. That means, to be eligible for full PPP loan forgiveness, a business must spend at least 60% of the loan proceeds on qualifying payroll costs (including certain health care plan costs). The remaining proceeds must be spent on other qualifying expenses (such as mortgage interest, rent, utilities and the other expenses listed above).

If your business doesn't clear the 60% payroll cost hurdle, it may still be eligible for partial forgiveness of its PPP loan. So, even if you're unsure that the full amount will be eligible for forgiveness, consider applying.

APPLYING FOR SMALL-LOAN FORGIVENESS

The CAA mandates a simplified one-page application to apply to the Small Business Administration (SBA) for forgiveness of a PPP loan of $150,000 or less. The application requires the borrower to state

only the number of employees it was able to retain because of the PPP loan and the estimated total amount of PPP loan proceeds that were spent on payroll costs. No other documentation need be provided to the SBA with the simplified form. However, the borrower must attest that applicable guidelines were met when the PPP loan was taken out.

CLARIFYING THE TAX IMPACT OF FORGIVEN LOANS

The CAA clarifies that no tax deduction will be denied for expenditures paid with proceeds from forgiven PPP loans, and neither is a basis adjustment required for assets purchased with loan proceeds. Language in the CARES Act provided that any PPP debt forgiveness would be tax-free.

Subsequent IRS guidance reminded taxpayers that, when federal-income-tax-free treatment is allowed for a forgiven loan, no deduction is allowed for expenses paid with the loan proceeds. And any other tax attributes (basis, net operating loss carryovers, capital loss carryovers and so forth) must be adjusted for expenditures made with the loan proceeds.

Despite evidence suggesting that Congress didn't intend such negative tax impact from PPP loan forgiveness, the language of the CARES Act was silent on the issue. The CAA corrects the oversight, expressly providing that the tax deduction is allowed, and that no attribute reduction is required when PPP loans are forgiven. These favorable changes are retroactively effective to when the CARES Act was enacted, and the IRS has subsequently issued guidance reversing its prior position.

CHANGE IS POSSIBLE

This article provides explanations of only a few of the favorable changes for PPP loans. Be aware that more revisions could appear in future legislation. Stay in contact with your tax advisor for updates. •

3 financial lessons from the pandemic

The COVID-19 pandemic has thrown a wrench into the personal finances of many families who've been negatively affected by job losses, reduced income or sickness. This includes families across the economic spectrum and workers in a wide range of both blue- and white-collar industries.

The virus's rapid spread and the economic havoc that followed are vivid reminders of how unpredictable and volatile the broad economy — and each family's personal finances — can be. In early 2020, things seemed fairly normal. And then, in what seemed like an instant, everything changed in the spring.

PLANNING FOR A CRISIS

Some lessons can be learned from the experiences many people have faced during the pandemic. They can help individuals and families better prepare for the next financial emergency. Here are three of them.

1. Don't live above your means. In some ways, this is even more important for high earners than it is for those with more modest incomes. Those with higher incomes sometimes overcommit themselves financially by living a lavish lifestyle.

For example, they may purchase large homes in high-end neighborhoods or buy expensive luxury automobiles that stretch their finances to the limit and beyond. Then, if they experience a financial emergency like a job loss or reduced work hours, they're suddenly unable to afford the lifestyle they've grown accustomed to.

> *The time to make career contingency plans is* before *something like a worldwide pandemic disrupts the global economy and eliminates millions of jobs.*

2. Build up an adequate emergency savings fund. By living below your means, you may have extra money each month to build up an emergency savings fund. While every situation is different, many financial experts recommend saving between three and six months' worth of living expenses in an emergency fund.

Emergency savings should generally be kept in a liquid savings or money market account. Such an account probably won't generate a high return, but the money will be relatively safe and easily accessible if you need it for an emergency. Search online to find an account that offers the highest yield along with maximum liquidity.

3. Have a career plan. The time to make career contingency plans is *before* something like a worldwide pandemic disrupts the global economy and eliminates millions of jobs. As the COVID-19 pandemic has shown, what may appear to be a secure job and career can vanish in the blink of an eye.

Some entrepreneurial individuals have turned career setbacks into opportunities by starting new businesses after being laid off. Others have hung out a shingle and started freelance and consulting businesses, using their marketable skills and industry contacts to carve out profitable niches for themselves as self-employed professionals. Give some thought to how you might be able to redefine yourself professionally and build a brand-new career if your existing job were eliminated.

DEVISE YOUR PLAN NOW

The pandemic has been called a once-in-a-century event. However, no one knows what the next major economic disruption might be or when it might occur.

This makes now a good time to think about how you can best prepare for another economic disaster — if and when one strikes. Keep these three financial lessons in mind as you devise your plans. •

Businesses can 100% deduct business meals through 2022

Recent legislation designed to assist the restaurant industry is also a big pleaser for businesses. The Taxpayer Certainty and Disaster Tax Relief Act (TCDTRA) suspends the 50% deduction limit for certain meals for calendar years 2021 and 2022. It allows businesses to deduct 100% of the cost of business-related meals provided by a restaurant. The TCDTRA was bundled inside the Consolidated Appropriations Act of 2020.

Until this legislation was enacted, you could generally deduct only 50% of the "ordinary and necessary" food and beverage costs you incurred while operating your business. As a result of the new law, there's an *exception* to the ceiling for this year and next that allows you to deduct your full eligible costs.

It gets even better. The legislation refers to food and beverages provided "by" a restaurant rather than "in" a restaurant. So, takeout and delivery restaurant meals also are fully deductible.

The legislation isn't a carte blanche, however; pre-TCDTRA requirements still apply. The food and beverages can't be lavish or extravagant under the circumstances. In addition:

- The meal or entertainment must involve a current or prospective customer, client, supplier, employee, agent, partner or professional adviser with whom you could reasonably expect to engage or deal with in your business, and
- You or one of your employees must be present when the food or beverages are served.

If food or beverages are provided at an entertainment activity, further rules apply. Either they must be purchased separately from the entertainment or their cost must be stated on a separate bill, invoice or receipt. This is required because the entertainment, unlike the food and beverages, is nondeductible.

For example, you can't deduct the cost of taking a client out for a round of golf, a football game or the theater. But you can deduct the full cost of meals or beverages consumed during these entertainment events if you meet the requirements described above.

> *Takeout and delivery restaurant meals also are fully deductible if certain requirements are met.*

UPDATE YOUR POLICIES

In light of these recent changes, your business should update its policies to ensure it's treating its expenses properly for tax purposes. Make the most of the tax benefits available. •

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