POLARIS ADVISORS, LLC.

THE Retirement Report

Retirement Transition Planning

508.481.2299 www.polarisadv.com Second Quarter 2019

Tax Alert: Plan Now For The Demise Of Stretch IRAs

Say goodbye to the stretch IRA! That's the message from Congress, where a pending bill with bipartisan support would deep-six this tax-advantaged practice. Stretch IRAs have been a boon to non-spouse beneficiaries who inherit a retirement account because they can extend the period of tax-free growth on an inherited IRA over their expected lifetime.

Under current rules, for purposes of illustration, assume a father dies and bequeaths his 40-year-old daughter his individual retirement account. The tax code requires that she takes distributions out of the account every year. But she can extend that to over her actuarially expected lifespan codified in a table published by the IRS.

An heir can expect to live to 95, according to actuarial tables. That means a 40-year-old female heir can avoid taking the money all at once in a lump sum — and won't have to pay the IRS a big chunk of it. Instead, you can withdraw just 1/55th of the IRA amount annually, which obviously is less money than the whole of it, but also has less of a tax bite. Meanwhile, by extending the payout period, the account can grow in value over the decades, giving you more money than the sum you inherited.

Congress, however, is intent on ending this good thing. The legislation, called the Setting Every Community Up for Retirement Enhancement Act, or SECURE, passed the House of Representatives by a whopping 417 to 3. A similar version is pending in the Senate.

The law contains provisions that would be beneficial to many retirees, such as delaying required minimum distributions (RMDs) from your tax-deferred retirement plan or IRA to age 72 instead of 70½. Deferring taxes 18 more months when your account is near its all peak value is a nice boost for you, owing to the law that is widely expected to be passed by the end of 2019.

Under the House bill, a beneficiary must deplete an inherited IRA within 10 years of the owner's death. (Inheriting spouses get the money tax-free and with no RMD.) While the Senate proposal permits a lifetime stretch of the deferral on the first $450,000 of an inherited IRA, the balance is required to be withdrawn in five years. The appeal to lawmakers of squelching the stretch IRA: it would raise $15.7 billion in Government revenue over the decade through 2029.

There are ways, though, to set up an inheritance to replicate a stretch IRA. A parent or other IRA owner, who wants to pass along the money with less tax depletion and more flexibility, would want to weigh the following strategies to

(Continued on page 4)

Some Taxes Are Worse Than Others

When the government runs short of money, bad things tend to happen. One example of this is the potential demise of the "stretch IRA" as discussed in our lead article. While Congress sees a source of revenue ($15.7 Billion over the next decade,) we see a poor choice in the long run.

A stretch IRA is what a non-spouse inherits when the IRA owner passes. Typically this occurs when a widow or widower dies and bequeaths their remaining IRA to their children. The recipient of such an account should carefully save it until they reach their own retirement. If the law passes, they will have to deplete it long before they need it.

The negative consequences of this change will invariably be more Americans unprepared for retirement. And therefore, more demand for social services for poor and elderly people. Higher government outlays for housing, heat assistance, transportation, food stamps and the like may be the "cost" of this new tax. But this won't happen until the next generation comes to retirement. In the short run the government gets more revenue. In the long run it gets more costs! Many future Americans may suffer a poor retirement when the legislators that pass this bill are long gone.

If our government needs money it should face the people and raise tax rates, not select a small subset of responsible retirees who've done well providing for themselves. Forcing the children of prudent parents to deplete their inheritance sends a pretty poor message.

Be Well;

Ric and Trang

Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal. No advice may be rendered by Polaris Advisors without an in force client agreement. Information is believed to be from reliable sources, but we make no representations as to completeness or accuracy. Opinions expressed are subject to change without notice.

Give To Charity From An IRA To Lower Your Tax Bill

To keep your tax bill down, if you are over 70½, consider a qualified charitable contribution, which makes donations of up to $100,000 from an Individual Retirement Account (IRA) to a fully deductible charity.

A qualified charitable distribution (QCD) lets you donate from a traditional or inherited IRA, provided you meet the age requirements.

A QCD can help you eliminate, or at least reduce, taxes owed on your required minimum distribution (RMD). That's the amount you are required to take out of your IRA account annually after turning 70½.

Example: Your yearly RMD is $20,000, which counts as taxable income. But if you donate that amount to a charity, it's not counted as income, which may drop you into a lower tax bracket.

Moreover, you don't have to itemize to take this tax deduction. That's good news for Americans no longer itemizing deductions on their returns. To be sure, some taxpayers are hurt by the Tax Cuts and Jobs Act's $10,000 cap on state and local tax deductions, so a qualified charitable distribution can make sense.

You don't have to donate the entire amount to a single charity. You can divvy up a QCD among multiple IRS-eligible charities, within the $100,000 annual limit. You don't have to use 100% of your RMD for the donation, of course, and can keep what you need to pay for your living expenses and donate the rest.

QCDs require careful attention to ensure your donation is made from an individual retirement account — not a 401(k) or 403(b). In addition, you may not make a QCD and also itemize charitable deductions. You must pick one. Plus, the charity must not be a private foundation or a donor-advised fund. These technical details are crucial.

Another QCD tip: Make the contribution straight from your IRA. The RMD money must never be in your personal, non-IRA account. Send your IRA custodian instructions to send the check directly to the charity, with the organization's name on the check. Have the IRA custodian send you documentation that you made the donation.

Finally, be sure to make the donation before you take your RMD. Should you take the RMD first, you can't give the money back to the retirement account and will be ineligible to deduct it.

The QCD is a fairly complex solution to lower taxes and requires the advice of a qualified tax professional. ●

Opportunity Zone Investment Frenzy Requires Caution

A new provision in the tax law for the first time in 2018 is leading to a frenzy of tax-driven investment products to be promoted to affluent investors, but caution is wise.

Investors can defer paying tax on large capital gains or eliminate gains taxes entirely by investing in one of more than 8,000 places across the country designated under federal law as Opportunity Zones (OZ). The lucrative new tax-driven investments are being promoted by Wall Street firms, which already has prompted warnings in the press about the sudden investment fascination.

With an OZ investment, a reinvested capital gain is tax-deferred, putting an additional 15% or 20% more into your OZ investment. You don't have to pay the gains tax until you sell your interest in the opportunity zone investment. If you stay in the fund for five years, you pay tax on only 90% of your delayed capital gains. Hold for seven years, and you pay tax on 85% of the gains. And if you hold it for 10 years, the appreciation on the OZ investment is tax-free when you exit the fund — assuming the investment has increased in value.

Since January 2018, more than 80 OZ funds have sprung up, even though the Trump administration has not finalized regulations governing them, according to a front-page story in *The New York Times* on February 20th, 2019. "Managers of the funds are seeking to raise huge sums of money by pitching investors on a combination of outsize returns and a feel-good role in fighting poverty."

Some of these OZ areas are more down-and-out than others. Perhaps the most prominent OZ is Long Island City, a waterfront section of the New York borough of Queens. Amazon was set to build a new

U.S. - China Trade War Coverage Distorts Economic Reality

The amount of coverage in the media of the U.S. - China trade war is far out of proportion with the potential impact that China - U.S. trade has on the U.S. economy.

U.S. exports to China comprise just 1% of U.S. GDP. In the $19-trillion-dollar U.S. economy, the 1% of activity with China is inconsequential. However, Chinese exports to the U.S. comprise 4.1% of China's GDP, which means China has much more at stake.

These facts seemed lost from the recent trade war coverage. Unfortunately, the alternate reality in the media misinforms, misleads and confuses investors. It's no conspiracy or bias, and it spans all political biases. Its journalists trying their best to explain the world. But it is a sign of the times, of a world in which the media's power to reach masses outstrips its understanding of our complex world. Consequently, coverage of the trade war with China was a grotesquely distorted reflection of economic and financial facts. It's no wonder so many investors have trouble adhering to a discipline.

Admittedly, there is much we do not know about the inner workings of the economy. Even Janet Yellen, former chair of the U.S. Federal Reserve Bank, the woman who led the U.S. out of The Great Recession into The Great Expansion, admitted live on CSPAN in September 2017 that the low inflation rate was a mystery to her. And, talk about mysteries, how about productivity? Surging in recent months, productivity caused a totally unexpected U.S. growth spike in the first quarter of 2019 and may be more important to U.S. growth than inflation for the rest of 2019 and 2020. And productivity growth is even more perplexing!

As a result, some people think investing is like gambling at a casino, or betting on a horse, and makes many think investing is not connected with facts. That's just untrue! We do know a few things about the economy that are important to investors:

- Consumers drive 70% of economic growth in America.
- Economic growth drives S&P 500 profits.
- Profits drive stock prices.

Stock prices don't always reflect fundamental economic trends, and past performance never guarantees future results. But economic fundamentals are the key determinant of corporate profits over the long-run, and economic fundamentals remained strong through the recent trade war scare. That's why stocks didn't come undone despite the media frenzy over the trade war with China.

While not everything about the economy is understood, facts matter. It's wise to stay focused on economic fundamentals. If you're investing for the long-run, lest you risk being influenced the media sometimes grotesquely distorted reflection of economic facts. ●

---

headquarters there but backed out after its large tax breaks stirred controversy. Other gentrifying OZs include Oakland, Calif.; East Austin, Texas; and South Norwalk, Conn, but thousands are located in seedy parts of downtowns across the country.

The New York Times

Wall Street, Seeking Big Tax Breaks, Sets Sights on Distressed Main Streets

- Hedge funds and other wealthy investors are plowing money into so-called opportunity zone funds.
- The funds are a creation of the 2017 tax law that provides incentives for spending on projects in poor areas.

The frenzy of activity is reminiscent of tax scams peddled after the enactment of major federal tax reforms in the 1980s and 1990s, which resulted in huge losses for investors and a plethora of class-action lawsuits against Wall Street firms and other promoters.

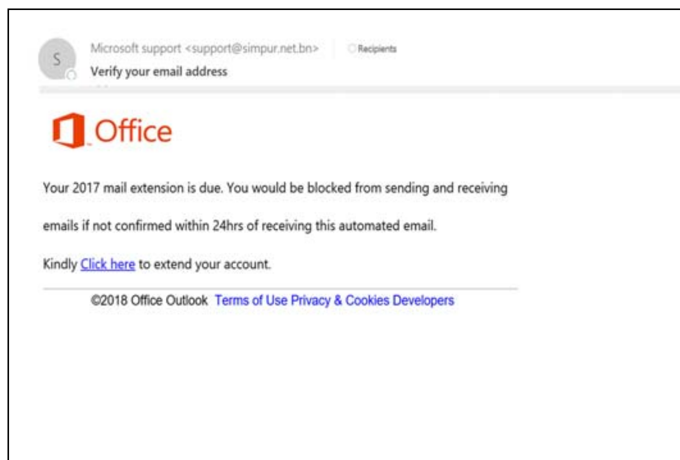
Oz investing can be expensive, and you must be comfortable with the risk as well the social objectives of a fund before investing, and it requires personal tax planning and investment research from a professional. Please let us know if you have questions about this new type of investment that must be considered cautiously. ●

Six Tips To Avoid Phishing Scams

"Fake news" has exacted a high cost to American culture and political discourse, but the internet fakery that costs you time and money is phishing, emails diabolically aimed to trick you into opening your personal data to crooks and miscreants.

Phishing is the practice of emailing people purporting to be a reputable company to fool people into revealing passwords, credit card numbers, contacts, emails, internet accounts, and your most personal digital data. It's rampant. Whether you're using a smartphone, tablet, or computer, here are some tips for protecting yourself:

Mistakes. Phishing emails often are generated by teens or crooks with weak skills in English punctuation, grammar, and spelling. The phishing email from Office uses an improper style in "24hrs" and the capitalization of the phrase, "Kindly Click here" should arouse suspicion. When you look at this email's bottom line, the copyright is "Office Outlook." The logo is off. The product name is Office 365 and there is no mention of Microsoft in the copyright notice. Does the sentence Terms of Use Privacy & Cookies Developers make sense? It's a hint that this is a fake.



Reply email address. In this phishing email, the reply address at the top left says "Microsoft support," but if you look closer, the reply email address is "support@simpur.net.bn" and that is not a Microsoft address. The "bn" suffix is the internet country code for Brunei, and that's another telltale sign of fraud. Clever phishing emails often fake reply addresses in other ways. The easiest way to verify a reply email address is to double click on it and look at its properties. If the email purports to be from Microsoft or Google, will hitting reply send an email to a Microsoft or Google email account? If not, it's fake.

Links. Don't click on links in a suspicious email without being deliberate. The link could be a malicious website. Right click on the link and check its properties and see if the link goes to the company.

Slow down. The grammar, misspelling, bad links, and other telltale signs are easily overlooked when you're in a rush, and that's perhaps the reason why people become ensnared by phishing emails.

Verify before you trust. Trust but verify works for some things but not with internet security. First verify and then you can trust.

Secure Software. Microsoft and Apple release updates to computer operating systems continually and those are essential to staying secure. Anti-virus and anti-malware programs are also essential and they need to be kept updated with the latest fixes. ●

The Demise Of Stretch IRAs

(Continued from page 1)

maximize your impact on the next generation:

Convert the IRA to a Roth. Before an IRA holder passes, it might be wise to convert the account to a Roth. The giver will have to pay taxes on the money up front. But a Roth requires no minimum distributions annually; your heirs will owe the IRS zilch and can withdraw at his or her own schedule.

Insure payment of the conversion tax. One way to pay the Roth conversion taxes is to take out a life insurance policy on the donor — the proceeds from which are tax-free. At the IRA donor's death, the policy's proceeds pay the taxes for the Roth conversion. Otherwise, the up-front taxes may (and often do) come from the IRA itself, thus shrinking it. An insurance product's cost must be considered as well as the creditworthiness of the insurer.

Set up an irrevocable trust with a life insurance policy. This is a variant on the previous strategy. Here, the donor takes a distribution from the IRA long before death and uses the money to fund the trust. The trust is called "irrevocable" because the terms of the trust can't be altered without the approval of its beneficiaries. Although the trust can't grow tax-free, like a stretch IRA, its distribution is also at the discretion of the recipient.

Create a charitable remainder trust. For those of a philanthropic bent, this arrangement serves a double purpose. At death, the IRA owner funds the trust, which pays the beneficiary for a specified period or for the person's lifetime. The trust establishes a set amount or percentage that goes to the inheritor. (The estate receives a charitable deduction for the gift.) The other big win: what's left over goes to a designated charity.

Implementing these tax strategies requires the advice of an experienced tax professional, who understands your personal situation. This article is not tax or legal advice, but it is an alert to IRA owners and their beneficiaries to watch the proposal now wending its way through Congress and prepare to act on a strategy. U.S. tax laws historically are usually not signed until the end of the year but waiting on this tax reform to be signed may not leave you enough time to formulate the best strategy for minimizing taxes owed on an inherited IRA under the SECURE Act and optimizing your impact on the next generation of your family. Please contact us with questions. ●

Polaris Advisors, LLC • www.polarisadv.com
550 Cochituate Road, East Wing, 4th Floor, Suite 25, Framingham, MA 01701 • P (508) 481.2299 • F (508) 655.4066
25 Braintree Hill Road, Suite 200, Braintree, MA 02184 • P (781) 431.9432 • P.O. Box 3036, Wakefield, MA 01880
Articles are written by a journalist hired by Polaris Advisors, LLC and are general information not intended as advice to individuals.

©2019 API