Third Quarter 2020

NAVIGOE newsletter

WHERE PROSPERITY FINDS PEACE OF MIND

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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.

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!

Distributions taken as RMDs from pre-tax retirement accounts are always

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.

Here's where the unusual alignment of factors takes a special

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 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

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Navigoe 3rd Quarter Updates And Blogs

Right around this time of year is when we usually host the annual Navigoe End of Summer Celebration. Unfortunately, as we are still respecting social distancing and group gathering guidelines, the 2020 celebration has been canceled. However, we hope to give you something to look forward to. Our company, started by Scott in 1996, turns 25 years old in 2021! We plan to have a celebration befitting the anniversary.

In addition to the content provided in this newsletter, we would like to direct you to some of the recent posts on our blog.

"Large and in Charge" examines the fact that the largest 10 stocks represent more than 20% of the entire stock market and whether this is unusual or cause for concern based on historical precedent.

"The Difficulty of Market Timing" includes a video of Professor Kenneth French of the Tuck School of Business at Dartmouth College. Professor French discusses the pitfalls of attempting to time the stock market.

Please take a moment to visit our blog at www.navigoe.com/blog. Let us know if there are any topics that you would like us to write about.

Finally, we have continued to conduct meetings with clients and prospective clients over Zoom video or simply by phone. If we haven't met with you recently, we would love to see you over Zoom in the near future!

Best Regards,
The Navigoe Crew

Three Easy Ways To Increase Your Chance Of Financial Success

Changing your financial behavior can be an important step in determining your long-term financial success. Here are three simple activities that can help.

Automate. Infrequent interventions, such as budgeting once a year, are less likely to bring success than more automatic actions that occur quarterly or monthly. Enrolling in a salary reduction plan which takes money from each paycheck and goes into your qualified retirement plan illustrates the difference between decisions that require your recurring action versus those that automated. What else might you automate to increase your savings or make sure you pay your bills? Examples include signing up for a newsletter, webinar series, or class about tax and investment planning. The easier you make it to become educated about a topic you might not otherwise research regularly on your own, the more likely you are to seek out the knowledge you need to be more fully engaged in learning and find answers to the important questions.

Write it up. Whenever you make a major financial decision, write yourself a note about your decision.
By jotting down your analysis at the time you make a decision, you'll create an introspective record that, over the years, will help reveal successes and failures.

Increase self-awareness. Your financial personality can help or hinder your financial success and you may be entirely unaware of it. Increasing self-awareness can help you avoid sabotaging yourself. The burgeoning social science of behavioral finance can help you learn about your financial personality traits. For example, would you rather receive $160 today or $246 in 12 months? How about $160 today or $180 in 12 months? Your answer to a series of questions like this can reveal your predisposition toward deferring rewards now in favor of reaping financial benefits from a long-term plan. Similar questions can guide you in determining how likely you are to tolerate losses in bear markets, whether you are overconfident about your financial decision-making abilities, and offer hints of the types of investments that might work best in a long-term portfolio designed to help you accomplish your financial goals.

If you would like to talk about other steps you can take to ensure healthy financial behavior, please do not hesitate to contact us. ●

Financial And 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.

Signed by President Donald J. Trump on December 20, 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

How To Swap Real Estate And Defer Taxes, Maybe Forever

A tax-savvy way to improve your real estate situation is to swap one property for a new one. Called a 1031 exchange, referring to its section of the tax code, this works so long as you are switching business properties. Personal residences aren't eligible.

While 1031 exchanges are often used by big commercial real estate operators, there's nothing stopping you from using the strategy for much smaller-scale holdings. The maneuver defers capital gains taxes, perhaps forever.

This takes some planning. For instance, say you have a vacation house and would like to exchange it for a property in a location that is closer to your residence. You must rent the original vacation place out for at least 14 days per year for two successive years, and in the eyes of the IRS, you have a business asset. The only caveat is that you must continue to rent out the new vacation house for 14 days over the next two back-to-back years.

A couple of more requirements: First, you must identify the substitute property within 45 days of selling the old real estate. Second, you need to buy the new property within 180 days of your sale.

The nice thing about 1031 exchanges is that you aren't confined to the exact same type of property. So, you can swap a condominium for a farm, or a house for a marina — as long as it's a business or investment property. You'll need expert advice on this issue.

The December 2017 tax-code rewrite barred applying Section 1031 to make tax-free exchanges of collectibles but left intact tax-free exchanges for business- or investment-purpose real estate.

Federal capital gains taxes now are 15% (for income of $38,601 to $425,800) or 20% (for $425,801 or more). You can postpone paying taxes for the rest of your life. And your heirs benefit, too. When they inherit the property, they get a "stepped-up basis." This means the property is valued at the market rate at the time of your death. So, the taxable amount adjusts upward. If your heirs turn around and sell it right away, they will owe little or nothing. The tax liability on the property is erased.

Of course, the swap must be a sensible business deal. Getting a tax-free sale of a profitable strip mall to buy an apartment building that has trouble keeping tenants, for example, would be a bad outcome.

Accounting the value of a property properly is another important consideration, separating a capital investment in new appliances, for instance, from the fair value of the property.

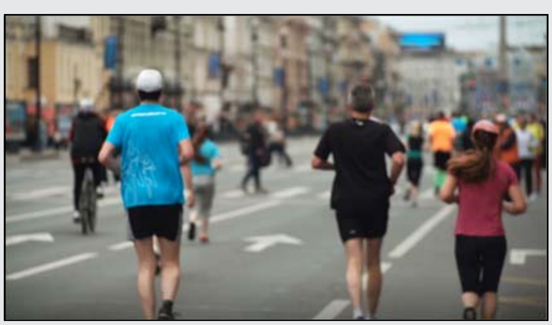
Keeping Uncle Sam's hands off the proceeds of a sale of real estate is an essential part of financial planning for owners of real estate for business, investment, or rental purposes, as well as those who rent out a vacation home as required under federal rules.

Strict timing limitations are required in a 1031 exchange. If a 1031 exchange is not properly constructed and executed in a timely manner, then an investor could lose all tax benefits of the transaction, including depreciation recapture. In addition, the property you sell must be a replaced with a like-kind property, and a Qualified Intermediary, as an independent third party, is needed to facilitate a 1031 exchange transaction and hold the funds on behalf of the investor.

Investors must also be leery of investments in private offerings created to sell 1031 exchange transactions. These are often illiquid investments, and do not offer guarantees of income or that your investment objectives will be met. They may be speculative, and you could lose some, or all, of your principal investment.

This is neither an offer to sell nor a solicitation to buy any security, which may be made only in an official offering memorandum. Investors should read any offering memorandum and review any risks associated. This article does not include all material information to determine whether to conduct a 1031 exchange. 1031 exchange opportunities are available only to accredited investors. Investors must be qualified prior to any discussion of a current or contemplated offering. ●

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. ●

Confronting Mortality's Details

The Covid pandemic is causing families unimaginable suffering, worry, and grief. It is forcing many individuals to confront mortality, to consider, in very real terms, perhaps for the first time, what will happen when their life comes to an end. Here, in less than 300 words, are key facts about documents that govern what happens to you at the end of your life.

A health care proxy and living will name someone to make medical decisions if you're unable to express your wishes and contain instructions about end-of-life care. This is understandably top-of-mind for a lot of people now.

A durable power of attorney (POA) permits someone else to manage financial and other matters while you're alive. The POA empowers someone you appoint to pay bills, write checks, or sell and purchase assets on your behalf should you become incapacitated.

Your last will and testament provides the details which take effect at your death for distributing your property. It should be reviewed annually so that the trustee, executor, and guardians of minor children you have appointed still conform to your current wishes. It's best to speak with whomever you're appointing about your wishes so that they're aware of your intentions.

A revocable trust can also provide for the disposition of your property after you die while avoiding the probate court process. Because courts across the country were shuttered for a time, they must now deal with a surge in filings due to the pandemic. In times like these, it's advantageous to have a revocable trust to avoid probate court delays. Setting up a revocable trust requires changing the titling of bank and brokerage accounts, real estate, and other assets, and may require signing documents with a witness or notary present, which is now complicated due to social distancing. Fortunately, remote signings can be properly executed via online meeting such as Zoom.

Finally, and most importantly, you will want to be certain that the beneficiary designations on both your retirement plans and your life insurance policies are up to date, as circumstances change over time. As a financial advisor, creating legal documents is beyond the scope of our work, but we can refer you to experienced professionals who can create these documents so they can be properly integrated into a comprehensive financial planning strategy. ●

Act By The End Of 2020

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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. ●