Money Matters

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Professional Fiduciary Services

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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

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Watch The Fed Closely In The Months Ahead

In June, the economic expansion entered its eleventh year, officially setting a new record as the longest growth cycle in modern U.S. history. The previous record-setter was the 10-year expansion that bracketed the 1990s.

From The Great Recession of 2008, the worst spate of negative gross domestic product (GDP) since The Great Depression, the current growth cycle began in April 2009, and GDP grew only modestly until 2015, when real wage gains accelerated, and that has propelled stronger than expected growth for the U.S. for over four years. Though U.S. growth recently leveled off, it's been a spectacular expansion by modern standards.

The Federal Reserve was nimble in changing interest rate policy as trade war and as real war fears heightened, and the expansion is poised to continue into 2020, but the Fed's model of the economy has not always been accurate in the past. Far from it! The Fed has caused every recession since 1954 by making a monetary policy mistake and misreading the economy — tightening credit too much and choking growth.

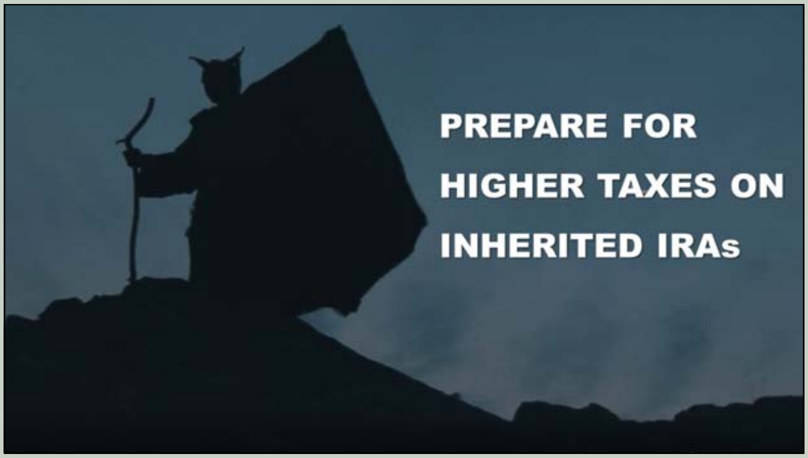
Since this expansion began, the Fed's forecast for inflation has been incorrect. Fritz Meyer, an independent economist whose research we purchase, says the Fed's fear of inflation is overblown. If he's right, the Fed may come around and allow the economy to grow through most of 2020 without raising interest rates. Watch for the Fed to show less fear of inflation in the months ahead.

Prepare For A Sweeping New Law On Retirement Account Taxes

A sweeping new law changing retirement investing tax rules was passed by the House of Representatives on May 29th. It's expected to be passed by the Senate and has the support of President Donald J. Trump. Although the legislation may not be signed into law until late this year, individuals with retirement accounts should consider how its enactment will affect them and their beneficiaries. Here's what you need to know now:

Secure Act Misnomer. The legislation is referred to as the Secure Act. Often buried or unmentioned in coverage is the full name of the legislation, "Setting Every Community Up for Retirement Enhancement Act of 2019."

Kills Stretch IRAs. A popular strategy for stretching tax deferral would be eliminated by the proposed law. The legislation's sweeping changes would kill stretch IRAs and represents a move to higher taxes on IRA beneficiaries. Non-spouse beneficiaries of Individual Retirement Accounts (IRAs) would no longer be permitted to defer taxes on payouts of inherited IRA over their expected lifetime after 2019. Under current rules, you could leave an IRA to your children and your heirs who can take distributions from that IRA based on their life expectancy. This allows those inheriting IRAs to stretch deferral of taxes over many decades, and the IRA account compounds without being taxed in this period. Under the proposed change, heirs would be required to distribute an inherited IRA over 10 years.



Exceptions. The proposal carves out an exception for minors — 18 or 21 in most states — until they reach the age of majority, and then they would be required to distribute the assets in the IRA over 10 years. A surviving spouse, those who are chronically ill or disabled are among those not affected by the new 10-year payout rule.

Beginning Date Of Required Minimum Distributions (RMDs). The new law would push back the age at which you must begin withdrawing money from an IRA. Under current law, you are required to begin taking distributions on the 1st of April following the year you turn age 70½. Under this new statute, that's going to be pushed back to age 72.

Stay Tuned. Waiting till the legislation is signed into law may not leave enough time to adjust your plans and minimize taxes for yourself and loved ones, and the legislation makes changes so sweeping and so new that its effects on long-term financial plans are still being researched. Please watch this space to learn details about ways to shield yourself and your beneficiaries from higher taxes on IRA payouts in the weeks ahead. Tax panning requires a qualified tax professional and personal attention. This is an early warning about an important issue affecting strategic long-term tax planning and not intended as tax or legal advice. ●

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.

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 t hat 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. ●

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. ●

Be Prepared For Tax Policy To Swing Back

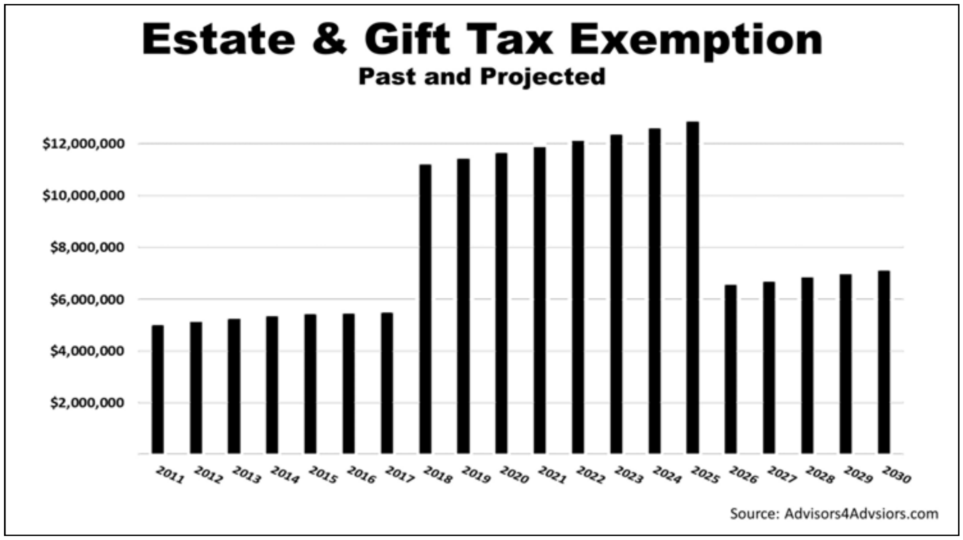
For business owners, professionals, and wealthy families, tax rules are about as favorable as they've been in decades, but the tax policy pendulum could swing back again. Be prepared to make some important financial decisions much sooner than had been expected.

For example, the lifetime tax exemption for gifts made in 2019 is $11,400,000, up from $11,180, 000 in 2018. It doubled over the $5.43 million in effect in 2017 and is scheduled to ratchet higher through 2025, as a result of the enactment of the Tax Cuts & Jobs Act (TCJA). In 2026, the exemption reverts back to the level in effect before the TCJA became effective in December 2018.

That means families should have many years before they would be forced to decide whether to make gifts in 2025 to maximize their exemptions from tax in passing their wealth to family members. The 2025 peak in the exemption amount forces a decision about whether to give assets to loved ones while you're still alive or hold onto your assets and give them away after you die. In 2025, you use the $12-million-plus exemption or lose it, and the exemption reverts back to a much lower amount in 2026 and beyond.

However, the tax policy pendulum — a politically charged issue — could swing in the other direction in the months ahead. Business owners, professionals, and other high-net worth individuals may need to make decisions about gifting assets much sooner. There is no assurance that you will have until the end of 2025 to make this important strategic decision about passing on your family wealth.

Point is, if tax policy changes, business owners, professionals and individuals benefiting from strategies enabled under the TCJA, may be forced to make decisions about income tax as well as estate and gift tax strategies much sooner than they might have expected. It's not an issue you want to fall behind on and will require personal and professional tax advice. ●



U.S. - China Trade War Coverage

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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. ●