KORBITZ FINANCIAL PLANNING
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July 2020 Newsletter

Korbitz Financial Planning

Introduction

The COVID-19 pandemic continues, with cases rising and records being set for new cases every day. And we are still in the "first wave." The fall and winter could be worse. There are so many things to be concerned about. I have friends who had COVID-19. I have a friend who lost two of her grandparents, a husband and wife, to COVID-19. This is real. It is going to take a long time for us to recover from this. That said, we must go on. This newsletter discusses several time-sensitive tax matters and a more general look at the economy and the stock market. Please let me know if you have any questions on any of the issues discussed. I wish you and your loved ones continued good health.

Eric
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Huge Do-Over Opportunity for Those Taking Required Minimum Distributions

One of the major provisions of the CARES Act was the suspension of Required Minimum Distributions (RMD) for 2020. That was welcome news to many, but there was a wrinkle. The law was passed and signed into law on March 27th. That was nearly 3 months into the year.

What happened if you had already taken your RMD prior to March 27th? Well, if you had taken it after February 1st, you were within the 60 days allowed by law to do a "rollover" of that RMD back into your IRA and not pay tax on the RMD. Great, you might say, but what if I took my RMD in January, more than 60 days before the CARES Act was signed? Well, you were out of luck, until June 23rd.

On June 23rd, the IRS released Notice 2020-51. This provides relief in several situations:

1. It allows anyone who took an RMD from their IRA to roll the RMD back into their IRA so long as they do so within 60 days of the distribution, or by August 31, 2020, whichever is later.

2. It allows beneficiaries of inherited IRAs to also roll their RMD back into their inherited IRA, if they want to, so long as they do so within 60 days of the distribution, or by August 31, 2020, whichever is later. Normally rollovers into inherited IRAs are prohibited.
3. It allows anyone who took a series of distributions from an IRA to roll those distributions back into the IRA, subject to the same 60 day and August 31st rule, and ensures that they will not run afoul of the "once per year" rollover rule. That rule says that you have one chance every 365 days to take money out of an IRA and then put it back within 60 days, and not be taxed on it. That means one distribution, and one rollover. This rule caused a problem for many who take monthly RMD distributions.

Is this relief for everyone? Absolutely not. If your only assets are in retirement plans, and you are taking RMD withdrawals to live on, you don't have other funds to put back into the retirement plan. This just does not matter.

On the other hand, if you are only taking your RMD because the IRS says you must, and you have plenty of other assets, you might consider the following steps:

1. Use some of your non-retirement funds (e.g. the money got as your earlier "RMD") to replace the amount distributed from the IRA.
2. Do a Roth conversion of the amount that you would have taken in an RMD. That is, transfer the funds from a Traditional IRA to a Roth IRA, and pay the tax on the transfer.
3. Pay the taxes on the Roth conversion from your non-retirement funds.

You end up with the same amount of income as though you HAD taken your RMD, but you end up with more money in your Roth IRA, which is tax-free, and less in your Traditional IRA, which is taxable upon distribution. One other factor to note: You CANNOT do a Roth conversion from an inherited IRA.

There is also a tax withholding issue you need to consider. Let's say that you had a $10,000 RMD and you had $2,000 of Federal withheld and $1,000 of state withheld. If you do not want to be taxed on the $10,000 distribution, you need to replace the $10,000 that was distributed, including the $3,000 of taxes. You then will need to find another place to either have your tax withholding from or make estimated payments, if required.

It may not be worth it for many with smaller RMDs to do the rollover. But if you have a larger RMD and you do not need the funds to be distributed, you may benefit from rolling the money back into the retirement plan and doing a Roth conversion.

2019 Tax Return Reminders

I don't think I have ever provided tax return reminders in July, for the PREVIOUS year.

Here are some very last-minute reminders:

- 2019 Federal and most state tax returns are due July 15th.
- The balances due on the above returns are also due July 15th.
- If you qualified for a Roth IRA contribution for 2019 but did not make the maximum contribution, you can still do so if you make it by July 15th and specify it as for 2019. This does not affect your tax return, so you could do this even if you already filed. (Note that a Traditional IRA contribution DOES affect your income tax return, so if you made an additional contribution but had previously filed your returns, you would need to amend the returns to correct for that change.)

Here are some 2020 income tax return reminders:

- 2020 First quarter estimated payments are due July 15th
- 2020 Second quarter estimated tax payments are also due July 15th

2020 Economic Impact Payment

Some of you have received an Economic Impact Payment (EIP) from the US government as a result of the CARES Act. This payment is technically an advance payment of a credit you will receive on your 2020 US income tax return. The IRS is reminding taxpayers that they should keep the Notice 1444 that you received either with or shortly after receiving your EIP. This will be needed to correctly reconcile your credit on your 2020 income tax return. Your credit could be greater than the amount of your advance payment, but you will never be asked to repay any of the advance payment you already received. Heads you win, tails you don't lose. So put that Notice 1444, or a note about the exact amount you received, in your 2020 income tax folder for use next spring.

Repeat After Me, The Stock Market is Not the Economy

Well, here we are. Less than 4 months after the stock market plummeted due to the COVID-19 pandemic, many stock market indices are back near their all-time highs. Everything is good, right?

My favorite radio show host Kai Ryssdal often says "The stock market is NOT the economy." As the stock market rocketed back from its mid-March lows I watched JC Penney, Hertz, 24 Hour Fitness, and many others declare bankruptcy, and I watched my former barber shop close, forever. Why the disconnect between the stock market and main street? That is hard to say, but here are a few thoughts:

1. Congress threw $2-3 Trillion at the American economy, providing a short-term stimulus. That is the amount distributed so far. There may be more to come.
2. The Federal Reserve reduced interest rates to near zero, to help stimulate the economy.

Those are reasons for the stock market to go up: more money in the economy, and lower interest rates for businesses and consumers to borrow money.

Again, all good, right? Here are some things I am concerned about:

1. The stock market at its all-time highs in January and February was looking forward with no real reason for a recession in the near future. In other words, the stock market was present valuing a future stream of income that appeared as though it would continue uninterrupted. We are now IN a recession.
2. The stock market today seems to be ignoring the following:
    a. The PPP money that the SBA handed out provides only short-term assistance, not long-term business stability. What happens to the businesses who took those loans who do not have their revenue return to pre-pandemic levels after the PPP money has been spent? Either layoffs, reduced profits, or they close their doors.
    b. The airline industry was given billions of dollars on the condition that they not reduce their payroll through layoffs until October 1. More people are flying today than on March 31st, but nowhere near as many as were flying last year at this time. It is highly likely that there will be huge layoffs in the airline industry come October, possibly as high as 30-40% of the workforce. In fact, the day I wrote this United Airlines announced that it may need to lay off up to 36,000 employees on October 1st. That is roughly 35-40% of its total workforce. That is one company in a travel industry that employs millions.
    c. While the unemployment rate has declined from its peak, there are still tens of millions of Americans who want to work who are not working. Those folks all pay rent or a mortgage payment, buy food and clothing, etc. If they do not return to work soon, there will be a dramatic decrease in US spending, often referred to as GDP, or the Gross Domestic Product. That means that the companies in the stock indices have lower sales, and lower incomes. That in turn, should mean lower stock prices.
    d. All that money that Congress borrowed and distributed should be repaid, at some point. That means higher taxes. We were scheduled to run a $1 Trillion Federal deficit this year, and that was BEFORE the pandemic. Now it is likely to be $4-5 Trillion. Wall Street does not like higher taxes. But unless the Federal government is going to switch to a deficit spending model, which could lead to higher inflation, then taxes will need to go up in the future to pay for this debt.

Why do I bring this up? To warn you that there very likely could be more volatility in the stock market in the months ahead. Am I predicting a decline in the order of what happened in February and March? No, I am not. Am I telling you to sell all your stock mutual funds? Absolutely not. I don't want you to think that just because the stock market went down, and back up again, that everything is sunshine and roses. There are storm clouds on the horizon. "This is your Captain speaking. Please fasten your seatbelts as there could be turbulence ahead."