Consider This Program

Episode Date:

April 13, 2019 Episode

On This Show:

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Show Notes:

CONVO 1:

Unplanned Distribution

Big 3: Loss of Job, Divorce, Death

What do you need to think about when you're going through a divorce?

Social Security & Divorce: June 16th, 2018 Consider This (link)

If you inherit an IRA, is it taxable or not taxed? FULLY TAXABLE

Spousal vs. Nonspousal

If you Inherit a brokerage account, you get a step up in basis (in the case that you inherited the money at death) or retain their basis (in the case that you inherited the money in life).

Ex) There's a guy here in town that I had taken care of for about 20 years & he had a brokerage account that was with us. We keep our money at TD Ameritrade and, and had a couple hundred thousand dollars in it. So when he dies, you get what's called a step up in basis. We talk about it a lot with our families. The whole $250,000 or so was absolutely tax-free to his sole survivor. Now, before he met me, he also bought a variable annuity that was actually an IRA. An insurance guy had sold him this annuity contract. It was in an IRA & it was an annuity that was held as an IRA. You don't get a step up in basis on that when somebody dies. When you get a divorce, you don't. So the insurance company receives notice of the father's demise. Nonetheless, we'd never had an opportunity to talk to his beneficiary. The insurance company sends this wonderful little letter. It says, by the way, you are now the proud recipient of a $160,000 IRA. The spouse's beneficiary sees this $160,000 and calls us for the check. Takes the $160,000 and promptly pays off the house.

This was a solo decision! It was a good idea, but may not the best idea. Be careful not to make solo decisions.

CONVO 2:

Situation: I had a discussion with one of our, um, she's in her mid-eighties, one of our families today that we take care of and she got a notice just this week. Um, well actually it was last week, uh, that one of the exchange-traded funds that she holds, um, had a company that paid a dividend and the dividend was not deemed qualified by the IRS when they went back and looked at it.
So it qualified dividend is held by a US based company, right? It has to be here. I'm so not an ADR, not a Toyota or something like that. Not Overseas. But a qualified dividend is taxed differently than non-qualified dividends. And so last year, um, she got a letter from a different exchange-traded fund. So obviously this doesn't happen in your IRA accounts. It happens when you've got the money that's after tax. And she had to pay taxes on a dollar and she didn't mind paying the taxes on the dollar, which she mind was her mind did, was the CPA charged $100 to Redo the return? I assured her if she, if that happened this year, if she called me, we would, um, we would find a different solution, uh, to set problem. But it's one of those things that you can't control when you've already done your taxes.

And they'd change these dividends sometimes. I've seen them happen after April 15th. Um, where you get them, where you get the notice. Many people who have k one reports don't get them until after April 15th, even though they're supposed to be out. There's just too much math going on to get calculated. So you really have two dates in the tax code and you've got April 15th when all that you always do and you have October 15th when all of the reporting that you need to do is required, right? So you'll hear, you'll have a lot of tax returns that are actually dated in October. Uh, and you're seeing more and more of those because there's so many different k one reports that that tend to come out today. On the, on the things, one thing leads to another, I thought we would talk about the difference between the short form and the long form. So Kin, you'd look at tax returns all the time. How would you define the difference between a short form and a long form?

What's the difference between a long form and a short form?
- Schedule A - long form
  - Deductions
- AGI, Schedule C's

When you go to your CPA's office and pick up your taxes, the envelope may be lighter…
- That's because you are doing the short forms (Personal 1040)

Single? Standard Deduction: $12,000

Lost personal exemption (children going to college)

And in exchange for that, we got a higher standard deduction.

Then they went in to schedule an on the standard deduction and they started trimming the fat. So amazingly enough on a normal person's tax return, all right, on a normal person's tax return. So not high income, not business. Um, most of the games that got played on the schedule a came from a couple of different places. One was in miscellaneous expenses, miscellaneous deductions. Now the higher income people, it didn't really affect because one, you had to be a certain percentage of your Agi to be able to deduct it. And two, it got phased out very, very quickly, uh, as, as income was higher. I mean, just it, so there is no more miscellaneous deductions. Right. I have no idea.

NO MORE MISC EXPENSES

- Take the Standard Deduction
- Take the Short Form

CONVO 3:

When you call, Angie answers…

Link number

Most common question:

- Do you have a minimum?
- Do you have a maximum?
- How is the Financial Enhancement Group paid?
- Is there a charge for the first meeting?

QCD's & RMD's

- RMD's: 70 & ½
    - Bipartisan support to move to 72…
- Value of your account the year before
- Make charitable gifts
    - No longer deduction for charitable gift

2 Tax Forms

- For informed and uninformed

Over 70 & ½, Charitably inclined: Use RMD with a QCD!!

CONVO 4:

Mega Roth

Before 1986, you couldn't put a lot of money in your 401(k)

You had the ability to put money in your 401(k) that was after tax

Ex) We would call Fidelity and move their 401(k) into an IRA. 2 checks: after tax, tax-deferred

2014: You can take that money and move it directly into a Roth IRA

Ex) Over 50 yo, $25,000 in IRA

Technically allowed to put $62,000 (not all tax-deferred)

So take your 401k and the contribution amount, the 401k in the amount the in the company put in for you, the four o one k and the amount of, uh, forfeitures, if there are any of that in your plan, add that together. If you're over 50, subtract it from 62,000 and that's what's left.

let's say you happen to have a lot of income or a lot of money that's sitting around, right? That's from another source, right? And this is something that's overlooked. So when you think about a 401k, you think about a department of Labor is a big circle, right? That you can't do anything outside of that circle can. So, so department labor gives you a lot of rules. Like you can borrow money from a 401k, you'll hear people say that. Or you can take in-service non-hardship distributions or you can buy life insurance inside of a 401k. All those are perfectly legitimate, but they may not be in your plan. All right, so let's say Angie had $100,000 that just kind of fell into our lap, right? One, one reason or another. And you're not highly compensated at where you work. You are highly compensated, you know, you're blessed is what we say. But you know, relative to everybody else on the team, you're not out of whack, right? So let's say our plan document allowed for after-tax contributions, right? You could essentially put that money into your 401(k) is a non-owner, right? It's after tax and then roll it right out to a Roth Ira. And Presto, you've now got what's called a Mega Roth. Now, I can't do that here because I'm the majority owner of the firm, but I have another company, right? So if you're a business owner, what you're going to want to do is to open up another plan. Assuming you saving this much money toward retirement. Um, again, that's one of the questions I would always ask advisors. If you're, if you're working with a financial advisor, ask them their retirement plan. Now I have no intentions of retiring, you know, but you'd be amazed the number of them that are, I'm all hat, no cattle. Um, you know, and it's, yes, we do. We have a shopping list for what to ask other advisors if you're going to if you're in the mood to interview people and to hire them. But um, so you open up the other company and it's called a so low 401k. It's a piece of cake and you can be you and your spouse. It can not be your kids. Then you get into that ACP testing or whatever, but 25% of the profitability of that firm. So let's say it made $100,000, this other business made $100,000. You could put another $25,000 in your plan and be perfectly legal and be able to roll that money out and do a Roth Ira. That's the mega raw strategy. Now, let's say, cause we got one of these cases, I've got a physician coming in and the physician works for a hospital, so he is deemed highly compensated, but they fix all of that in the four o three B and he's starting a consulting company and he said, should I start a 401k? And we said, no, you should start a Sep Ira because now technically he can fully fund his 401k and he can fully fund the step all the way up to the $62,000 if he wants to. And it has nothing to do with the income or with the, with the profitability issue that, that the ACP tests that have to go on beautiful things. And Mega Roth. So again, if you're a business owner or if you've got a lot of, uh, of opportunity, shall we say, to be able to invest in your retirement and you may want to think this strategy through, you can give Angie a call, (800) 928-4001

CONVO 5:
Wrap-up

- Unplanned Distribution
  - Big 3: Loss of Job, Divorce, Death
    - Inherit an IRA… taxable or not taxed? FULLY TAXABLE
    - Inherit a brokerage account… You get a step up in basis or retain their basis
    - Social Security and Divorce: June 16, 2018, & October 27, 2018
- Short form & Long form... Itemize or Standard Deduction? STANDARD
    - The standard deduction was raised from $12,400 to $24,000 for married filing jointly, miscellaneous expenses have been eliminated on Schedule A, state and property have been limited to $10,000, which leaves mortgage interest and charitable gifting

QCD's

- Before you take your RMD, if you're charitably inclined: find out how QCD's work!
  - Strategies for charitably inclined before 70.5 yo
    - Gift appreciated stock
- Mega Roth

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