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James V Sadrianna PA - June 2020 - Newsletter

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2019 IRA Contribution Deadline Has Been Extended

Making a last-minute contribution to an IRA may help you reduce your 2019 tax bill. If you qualify, your traditional IRA contribution may be tax deductible. And if you had low to moderate income and meet eligibility requirements, you may also be able to claim the Savers Credit for 2019 based on your contributions to a traditional or Roth IRA. Claiming this nonrefundable tax credit may help you reduce your tax bill and give you an incentive to save for retirement. For more information, visit [irs.gov.](irs.gov)

Due to the coronavirus tax filing extension, there's still time to make a regular IRA contribution for 2019. You have until your tax return due date (not including extensions) to contribute up to $6,000 for 2019 ($7,000 if you were age 50 or older on December 31, 2019). For most taxpayers, the contribution deadline for 2019 is July 15, 2020.

You can contribute to a traditional IRA, a Roth IRA, or both, as long as your total contributions don't exceed the annual limit (or, if less, 100% of your earned income). You may also be able to contribute to an IRA for your spouse for 2019, even if your spouse didn't have any 2019 income.

Traditional IRA

You can contribute to a traditional IRA for 2019 if you had taxable compensation and you were not age 70½ by December 31, 2019. However, if you or your spouse was covered by an employer-sponsored retirement plan in 2019, then your ability to deduct your contributions may be limited or eliminated, depending on your filing status and modified adjusted gross income (MAGI). (See table below.) Even if you can't make a deductible contribution to a traditional IRA, you can always make a nondeductible (after-tax) contribution, regardless of your income level. However, if you're eligible to contribute to a Roth IRA, in most cases you'll be better off making nondeductible contributions to a Roth, rather than making them to a traditional IRA.

2019 income phaseout ranges for determining deductibility of traditional IRA contributions:		
1. Covered by an employer-sponsored plan and filing as:	Your IRA deduction is reduced if your MAGI is:	Your IRA deduction is eliminated if your MAGI is:
Single/Head of household	$64,000 to $74,000	$74,000 or more
Married filing jointly	$103,000 to $123,000	$123,000 or more
Married filing separately	$0 to $10,000	$10,000 or more
2. Not covered by an employer-sponsored retirement plan, but filing joint return with a spouse who is covered by a plan	$193,000 to $203,000	$203,000 or more

Roth IRA

You can contribute to a Roth IRA even after reaching 70½ if your MAGI is within certain limits. For 2019, if you file your federal tax return as single or head of household, you can make a full Roth contribution if your income is $122,000 or less. Your maximum contribution is phased out if your income is between $122,000 and $137,000, and you can't contribute at all if your income is $137,000 or more. Similarly, if you're married and file a joint federal tax return, you can make a full Roth contribution if your income is $193,000 or less. Your contribution is phased out if your income is between $193,000 and $203,000, and you can't contribute at all if your income is $203,000 or more. And if you're married filing separately, your contribution phases out with any income over $0, and you can't contribute at all if your income is $10,000 or more.

2019 income phaseout ranges for determining eligibility to contribute to a Roth IRA:		
	Your ability to contribute to a Roth IRA is reduced if your MAGI is:	Your ability to contribute to a Roth IRA is eliminated if your MAGI is:
Single/Head of household	$122,000 to $137,000	$137,000 or more
Married filing jointly	$193,000 to $203,000	$203,000 or more
Married filing separately	$0 to $10,000	$10,000 or more

Even if you can't make an annual contribution to a Roth IRA because of the income limits, there's an easy workaround. You can make a nondeductible contribution to a traditional IRA and then immediately convert that traditional IRA to a Roth IRA. Keep in mind, however, that you'll need to aggregate all traditional IRAs and SEP/SIMPLE IRAs you own — other than IRAs you've inherited — when you calculate the taxable portion of your conversion. (This is sometimes called a "back-door" Roth IRA.)

If you make a contribution — no matter how small — to a Roth IRA for 2019 by your tax return due date and it is your first Roth IRA contribution, your five-year holding period for identifying qualified distributions from all your Roth IRAs (other than inherited accounts) will start on January 1, 2019.

Finally, note that 2019 is the last tax year for which the age 70½ restriction on traditional IRA contributions applies. Due to passage of the SECURE Act in late 2019, beginning with the 2020 tax year, investors over the age of 70½ will be able to contribute to a traditional IRA provided they have compensation equal to at least the amount of the contribution (spousal IRA rules will remain in effect). (Keep in mind that if you're using a back-door Roth IRA strategy for 2019, the age 70½ rule still applies.)

You have until your tax return due date (not including extensions) to contribute up to $6,000 for 2019 ($7,000 if you were age 50 or older on December 31, 2019). For most taxpayers, the contribution deadline for 2019 has been extended to July 15, 2020.

Coronavirus Affects Federal, State, and Local Deadlines

Federal, state, and local governments have extended a number of deadlines amid the coronavirus pandemic. Here are just a few of the deadlines that have been affected.

Federal and state income taxes

The IRS has postponed the due date for filing federal income tax returns and making tax payments from April 15, 2020, to July 15, 2020. No interest, penalties, or additions to tax will be incurred by taxpayers during this 90-day period for any return or payment postponed under this relief provision.

The relief is automatically given to all taxpayers (they do not need to file any additional forms to qualify) and applies to federal income tax payments (for taxable year 2019) and estimated tax payments (for taxable year 2020) due on April 15, 2020, including payments of tax on self-employment income. There is no limit on the amount of tax that can be deferred.

Many state income tax deadlines have also been postponed. You can find more information on your state government's website.

REAL ID

The REAL ID Act, passed by Congress in 2005 set minimum security standards for state-issued driver's licenses and identification cards. Under the Act, residents of every state and territory are required to have a REAL ID-compliant license/identification card, or another acceptable form of identification (such as a passport), in order to access federal facilities, enter nuclear power plants, and board commercial aircraft.[1]

The initial deadline for REAL ID compliance was October 1, 2020. As a result of the pandemic, the U.S. Department of Homeland Security has extended the deadline to October 1, 2021. For more information, visit dhs.gov/real-id.

Driver's license and vehicle registrations

Many state departments of motor vehicles have temporarily closed or limited in-person transactions due to the pandemic. As a result, they are giving extensions/waiving deadlines for driver's license and vehicle registration renewals — in some cases up to 90 days. Some states have even waived road test requirements for teenagers who have completed all their driver's education requirements.

Visit your state's department of motor vehicles website for more information on the various deadlines/extensions and to find out which types of transactions can be completed online; many states have expanded their online services during the pandemic.

Local property taxes

Many municipalities are offering economic relief to homeowners during the pandemic by extending property tax deadlines or waiving penalties/fees for late property tax payments. This type of tax relief usually applies only to individuals who pay their property taxes directly and not those whose property taxes are collected in an escrow account by their loan servicer. You can contact your local government's tax office to check whether property tax deadlines have been postponed.

1 Department of Homeland Security, March 2020

It's important to understand how market swings relate to your own savings and investments.

Coping with Market Volatility: Be Sure to Use Appropriate Benchmarks

Do you find yourself glued to the daily news reports on market movements wondering about your own savings and investments? Before you make any hasty decisions, be sure you understand how these reports relate — or don't relate — to your individual portfolio.

The variance in the returns of different portfolios is largely attributable to their asset allocations. If you have a well-diversified portfolio that includes multiple asset classes (stocks, bonds, cash alternatives), be sure to compare its overall performance to relevant benchmarks, rather than the gains and losses reported throughout daily news cycles. For example, just because a particular stock market index, such as the S&P 500, may have dropped by a double-digit percentage doesn't necessarily mean your entire portfolio is down by the same amount. If you find that your investments are at least matching relevant benchmarks, you might feel better about your overall strategy.

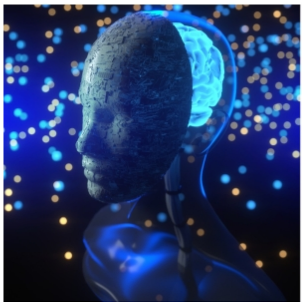
Asset allocation and diversification do not guarantee that you won't suffer losses, of course, and they also can't guarantee a profit. But they can help spread your risk. When the overall market declines, some asset classes and individual investments may be affected more than others.

Before letting daily headlines drive your investment decisions, consider whether your asset allocation is appropriate for your immediate and long-term needs and the risk you're comfortable taking.

For help in determining appropriate benchmarks for your portfolio, give us a call. We're here to help.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Although there is no assurance that working with a financial professional will improve investment results, a professional can evaluate your objectives and available resources and help you consider appropriate long-term financial strategies.



Understanding your biases may help you avoid questionable calls in the heat of the financial moment.

Coping with Market Volatility: Understand How Your Biases Can Affect Investment Decisions

When it comes to your finances, "go with your gut" might not be the wisest adage to follow. In fact, it may work against you, particularly in periods of market turbulence. Before jumping to conclusions about your finances, consider what biases may be at work beneath your conscious radar.

Recency bias refers to the tendency for recent events to have a stronger influence on your decisions than more distant events. For example, when the market was in the midst of an 11-year bull run, you may have increased your investments in equities, hoping to take advantage of any further gains. By contrast, if you were severely burned by market performance during the past several weeks, you may be hesitant about continuing or increasing your investments once the market settles down. Consider that neither of these perspectives may be entirely rational given that investment decisions should be based on your individual goals, time horizon, and risk tolerance.

Loss-aversion bias describes the tendency to fear losses more than celebrate equivalent gains. For example, you may experience joy at the thought of finding yourself $5,000 richer, but the thought of losing $5,000 might provoke a far greater fear. Loss aversion could cause you to hold on to a losing investment too long, with the fear of turning a paper loss into a real loss. In a down market, of course, most of your investments may show paper losses, so you might consider whether you are holding on to an investment that would be wise to sell within the context of your overall strategy.

It's only natural to be concerned when the market drops. But expecting volatility and having a sound financial strategy in place may be the best defense when events roil the markets. This might also help prevent you from making investment decisions influenced by biases.

If you think you might be basing your decisions on biases rather than facts, contact us. We can offer an important third-party perspective.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Although there is no assurance that working with a financial professional will improve investment results, a professional can evaluate your objectives and available resources and help you consider appropriate long-term financial strategies.

Retiree Confidence Drops in 2020, As Some Workers Worry

The Retirement Confidence Survey conducted each year by the Employee Benefit Research Institute (EBRI) took a slightly different tack in 2020. After completing its initial outreach in January — the 30th in its annual series — EBRI decided to conduct a second survey in late March to gauge how the effects of the COVID-19 pandemic were influencing worker and retiree perceptions, and compared those results with the earlier findings.

In its January research, EBRI found that retiree confidence in being able to afford a comfortable retirement dropped 5 percentage points from the previous year (77% in 2020 compared to 82% in 2019). When the survey was refielded in late March, that percentage held relatively steady at 76%.

In January, 69% of workers expressed confidence in their ability to live comfortably during retirement, which was comparable to 67% in 2019. In late March, the percentage was 63%, which EBRI classified as "lower, but not statistically significant." However, a closer look at worker responses revealed vastly different perceptions about future retirement success among those who either had experienced or expected a negative change in their employment status due to the virus.

Worker confidence based on employment status

"Understandably, retirement confidence is significantly lower among those who say their employment status has negatively changed or anticipate it to negatively change within the next six months," said Craig Copeland, EBRI senior research associate and co-author of the report. "Those who have experienced or worry about negative employment changes lag about 20 percentage points behind other respondents when it comes to confidence in having enough money."

In late March, 11% of workers said their employment status had changed in a negative way since February 1, and 12% expected their situations to change negatively in the coming six months.

% Very/Somewhat confident	No negative employment status change	Negative employment status change
Will have enough money to live comfortably in retirement	67%	47%
Will have enough money to last their entire life	62%	39%
Will have enough to take care of medical expenses	63%	46%
Will have enough to take care of basic expenses	72%	55%
Will have enough for long-term care expenses	56%	28%
Doing a good job preparing for retirement	67%	49%

EBRI also asked which of seven issues were most critical in America today. Among retirees, health care was cited as the most critical issue (35%), followed by the economy (23%). Workers were split about evenly between those two issues (34% and 36%, respectively). Other issues included political climate/leadership (workers, 12%; retirees, 20%); immigration (workers, 6%; retirees, 11%); education (workers, 5%; retirees, 2%); terrorism (workers, 4%; retirees, 5%); and Americans' retirement readiness (workers, 3%; retirees, 3%).

Putting the results into current context

In a section titled, "Thoughts on the Stability of the Results," the report's authors acknowledged that the overall level of retirement confidence among workers and retirees was surprising, given the current health and economic crisis. They noted that the main measure of confidence "focuses on long-term situations," and that "workers' continued confidence is likely reflecting Americans' view that current conditions will pass before they jeopardize long-term financial security in retirement."

The authors also noted the importance of considering the timing of the survey's second round of questioning, when "some of the biggest impacts of the coronavirus in the United States — such as widespread stay-at-home orders and closures of non-essential businesses — had not occurred yet." Although workers who experienced or expected a negative job change represented less than a quarter of the total number of workers who responded during that time frame, researchers concluded that the results could demonstrate how more workers today would respond given the compounding number of job losses in recent weeks.

About the survey

The initial survey of 2,042 Americans was conducted online January 6 through January 21, 2020. The survey included 1,018 workers (at least 25 years old) and 1,024 retirees. The supplemental survey of key questions was refielded between March 20 and 30, 2020. Data was weighted by age, gender, education, household income, and race using Census CPS data to reflect the composition of Americans ages 25 and older.

For more information, visit ebri.org.

Tax Tips: Health Insurance

Your health insurance coverage probably came in handy several times over the past year. It all seemed so simple at the time--you paid a deductible, and your insurance usually kicked in the rest. But what do you do at tax time? Just what are you taxed on, and what can you deduct on your federal income tax return?

Your income taxes may be affected by two aspects of your health insurance plan--the premiums and the benefits. Here's what you need to know.

You don't include employer-paid premiums in your income

For tax purposes, you can generally exclude from your income any health insurance premiums (including Medicare) paid by your employer. The premiums can be for insurance covering you, your spouse, and any dependents. It doesn't matter whether the premiums paid for an employer-sponsored group policy or an individual policy. You can even exclude premiums that your employer pays when you are laid off from your job.

What if your employer reimburses you for your premiums?

If you pay the premiums on your health insurance policy and receive a reimbursement from your employer for those premiums, the amount of the reimbursement is not taxable income. However, if your employer simply pays you a lump sum that may be used to pay health insurance premiums but is not required to be used for this purpose, that amount is taxable.

In most cases, you won't be able to deduct the premiums you pay

The deductibility of health insurance premiums follows the rules for deducting medical expenses. Usually, the premiums you pay on an individual health insurance policy won't be deductible. However, if you itemize deductions on Schedule A, and your unreimbursed medical expenses exceed 10 percent of your adjusted gross income (AGI) in any tax year, you may be able to take a deduction. You can deduct the amount by which your unreimbursed medical expenses exceed this 7.5 percent threshold.

Unreimbursed medical expenses include premiums paid for major medical, hospital, surgical, and physician's expense insurance, and amounts paid out of your pocket for treatment not covered by your health insurance.

If you're self-employed, special deduction rules may apply

In addition to the general rule of deducting premiums as medical expenses, self-employed individuals can deduct a percentage of their health insurance premiums as business expenses. These deductions aren't limited to amounts over 10 percent of AGI, as are medical expense deductions. They are limited, though, to amounts less than an individual's earned income. The definition of self-employed individuals includes sole proprietors, partners, and 2 percent S corporation shareholders.

If you qualify, you can deduct 100 percent of the cost of health insurance that you provide for yourself, your spouse, and your dependents. This deduction is taken on the front of your federal Form 1040; the portion of your health insurance premiums that is not deductible there can be added to your total medical expenses itemized in Schedule A.

Your health insurance benefits typically aren't taxable

Whether we're talking about an employer-sponsored group plan or a health insurance policy you bought on your own, you generally aren't taxed on the health insurance benefits you receive.

What about reimbursements for medical care? You can generally exclude from income reimbursements for hospital, surgical, or medical expenses that you receive from your employer's health insurance plan. These reimbursements can be for your own expenses or for those of your spouse or dependents. The exclusion applies regardless of whether your employer provides group or individual insurance, or serves as a self-insurer. The reimbursements can be for actual medical care or for insurance premiums on your own health insurance.

Note that there is no dollar limit on the amount of tax-free medical reimbursements you can receive in a year. However, if your total reimbursements for the year exceed your actual expenses, and your employer pays for all or part of your health insurance premiums, you may have to include some of the excess in your income.

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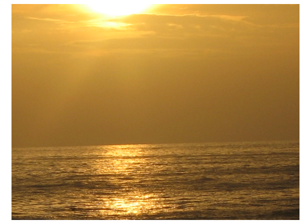

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