TACONIC VIEWS

Financial Insights for Secure Retirements and Life's Transitions

August 2020

IMPORTANT DATE!

The One Deadline to Remember (for now)

2020 has spurred a swirl of new legislation that is meant to blunt the economic fallout of the COVID-19 pandemic. The ONE deadline that you need to remember right now is that all required minimum distributions or Inherited IRA distributions that have been taken in 2020 can be rolled back into a retirement account, but this must be done by **AUGUST 31st, 2020**.

At first, the rule applied to required distributions taken after February 1st and did not include distributions from Inherited IRA (sometimes called "beneficiary IRAs"). It was later expanded on June 23rd to include January distributions that had already been taken and it now does include distributions from Inherited IRAs, even if you are under the minimum distribution age of 72.

Consult your tax advisor to evaluate your particular circumstances. But be sure to act by August 31st.

Meredith Briggs displays the latest COVID-19 fashion-wear with our newest staff member, Michelle Gaye. Read more about staff and operations updates inside!

Focusing on Charity in 2020

By Chip Simon, CFP®
Poughkeepsie, NY

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020, to help alleviate the financial impact of COVID-19 on individuals and businesses. Acknowledging that charitable organizations play a vital economic role, the Act includes provisions that increase charitable deduction limitations in 2020. The goal is to encourage more charitable giving during tumultuous times.

Local Giving, Now

Before I get to some of the 2020 implications of the rule changes, let me speak personally about the role of charitable giving in the Hudson Valley. I'm going to talk about two organizations, Community Foundations of the Hudson Valley and the Reformed Church of Poughkeepsie. I hold governance positions with both (my disclosure), but I'm simply using them as examples of the issues facing local not-for-profits. Also, many of us are spending more time at home and/or looking for ways to help. I hope that this gives you some ideas that you can use or share with others.

The Community Foundations of the Hudson Valley (CFHV) is a local resource for charitable giving. Donors can create their own charitable accounts like donor advised funds, special interest funds, and scholarship funds. CFHV also organizes charity events like the annual Garden

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Transitions…

Financial Planning for Life's Transitions

Just Begin

By Ken Robinson, JD, CFP® and Britta Koepf, CFP®
Rocky River, OH

For many people, estate planning, and all the questions it involves, feels like “something I ought to do some time.” With the spread of the COVID-19 pandemic, now might be a prudent time to get your estate planning documents in order. Although, the many facets of estate planning can seem overwhelming, it can help to just take a step in the right direction. Choose *just one* item to update and get going on it right now.

Update health care advance directives

In some states, advance directives may require more than one document, for example, a living will, a separate health care power of attorney, and a HIPAA authorization. Check with a local attorney to see what your state requires.

Think through whether or not you want outside interventions and perhaps ask your doctor what the options entail and whether there are particular considerations for your situation.

Check your beneficiary designations

It’s surprising how often beneficiaries aren’t set up the way the account owner thinks they are. And they’re crucial, because what is in your will *does* not affect your beneficiary designations.

Beneficiary designations appear on lots of different kinds of documents and accounts. Check all of the following to make sure there are no surprises:

- IRAs
- Retirement accounts such as 401(k)s
- Life Insurance
- Pensions
- Home titles (which may have transfer-on-death designations)
- Bank accounts (joint ownership or pay-on-death designations)
- Vehicle titles (in states that allow a transfer-on-death beneficiary)
- Investment accounts (joint ownership or transfer-on-death designations)

Complete at least one of your estate planning documents

If you don’t have a will, your state’s *intestate succession* law determines how your property will be distributed at your passing. There is a good chance that the law doesn’t do what you think it does, or what you want it to do. That means you need a will.

If you’re not sure which document to prepare first, start with your will. Every adult needs one, but it should be an especially high priority for you if:

- You have minor children (to provide for their guardianship)
- You are estranged from anyone in your family (to make sure your assets go only to those you intend)
- Your family situation makes it unclear where you would want your assets to go (for example, because you’re single, have no children, or are part of a blended family)
- You want property to go to someone other than immediate family members (such as charities)
- You’ve been divorced
- You are dissatisfied with your state’s intestate succession law

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Estate Planning… *Continued from previous page*

It may be more important right now for you to have a durable power of attorney so that someone can administer your financial transactions if you're not able to. If you can, you should do both the will and the durable power of attorney, but if you only have the time or money for one, just do it—it's better than nothing.

Whatever you do, *don't try to do these documents without a lawyer's expertise and guidance.* We've seen "estate planning" documents that are completely unenforceable because someone didn't take the time or spend the money to do it right. You don't want to do these documents on your own for the same reason you don't want to do your own dentistry—if you think you know what you are doing and you are mistaken, it's often painful and expensive to correct.

Don't rely only on your documents

Some estate planning issues require tough decisions, such as who you want as guardians for your minor children or who would be willing to make medical decisions or carry out end-of-life wishes for you. Such decisions can lead to hard conversations, but it's best to discuss your preferences with the people you want to name to handle these tasks. You want to make your wishes clear to the people who are important to you.

Creating estate planning documents is not easy, and it can be tempting to put off the effort. It's important, however, to have adequate documents in place. They don't have to be perfect—documents that come close to what you want are better than no documents at all. Just begin, and get it done.

Party, and builds other resources for local charitable giving like community grant funds. CFHV has its finger on the pulse of needs in the community, it coordinates programs to meet those needs, and it lets donors know about those needs.

I mention CFHV because not-for-profits have a business that is quite different than that of profit-making organizations. Consider this…when a business faces increased demand, the business revenues go up, and hopefully so do the profits. However, during times like these, the demand for not-for profit services like food, shelter, and human services goes up drastically, but the revenue goes down because of the economic constrictions that are taking place. The current need is great and CFHV has partnered with organizations throughout the mid-Hudson Valley to create initiatives (*Dutchess Responds, Putnam COVID-19 Response Fund*, and *Project Resilience* in Ulster County) that have so far helped distribute over $1.0 million in grants in the 3-County region. The annual Garden Party, which is a signature event, has this year "pivoted" to support local needs by cancelling the live event and, instead, pursuing a pure fundraising program. This will hopefully steer more dollars to address community needs since the costs of the live event will not be part of the picture this year. (I encourage everyone who supported the Garden Party in the past to try to maintain the same level of support since your dollars will go further to help community organizations.)

In addition to the increased demand, the reason why charitable support is so important this year is that many of the not-for profits in the Hudson Valley are very small but fulfill important "niche" needs. There are food pantries, farm projects, fresh food initiatives, behavioral health services, mediation services, hospice care organizations, food distribution/shopping services, and services for senior medical transportation, to describe but a few.

Here's another example. My church, the Reformed Church of Poughkeepsie on Hooker Avenue, has been running the Anne Hartwell Med-Equip Loan closet for over 25 years. This is a free service that lends out medical equipment like wheelchairs, walkers, and other ambulatory equipment. People graciously donate their used medical equipment. The program restores it and stores it, and lends it free of charge to anyone who asks. Anyone. What can that mean? Well, imagine a client, perhaps an older parent, who is on a tight budget (we often work with the adult child.) A free piece of equipment can mean more money available for food or caregiving. We know from the feedback that a service like this is a godsend in our community and I encourage you to let others know. But it is a simple example of the many small wonders that take place throughout our region. I know this, too, from the many grant applications that we review at the CFHV.

Today, many not-for-profit organizations are hanging on for dear life. The point is, if you have ever thought about volunteering, starting to give, or expanding how much you give, now is the time.

And if you know of or work with a small struggling not-for profit, have them apply to the CFHV "Pivoting to Respond Grant Program." The application deadline is August 31st. (*note: you may have to type the following link into your browser*)

https://communityfoundationshv.org/Grants/Pivoting-to-Respond-Grant-Program

So, what's in this for you?

One feature of the CARES Act is to incentivize charitable giving in 2020 by increasing the amount of your donation that can be deducted against income. The largest benefits are for cash donations that go directly to public charities.

1. **New $300 deduction per person, even if you are taking the standard deduction.**

Individual taxpayers who claim the standard deduction can receive an extra $300 deduction ($600 for married couples filing jointly) for cash contributions to public charities in 2020. In other

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Charity – *continued from previous page*

words, the taxpayer gets the benefit of the new deduction without itemizing. Prior to the CARES Act, there was no charitable deduction allowed for taxpayers who used the standard deduction. This was a concern when the tax law changes were passed in 2017.

The CARES Act also lets corporate taxpayers deduct up to 25% of taxable income for 2020 for cash contributions to public charities (up from 10%).

2. **Expanding the limits on charitable deductions.**

Prior to the CARES Act, the annual charitable deduction limitations ranged from 20 to 60% of a taxpayer's adjusted gross income (AGI), depending on the type of donated asset. Any donation in excess of that limit can be applied to a tax return during the next 5 years (called a "carry forward").

The CARES Act increases the maximum 60% of AGI charitable contribution limit to 100% of AGI limit for 2020. This means that you can get a charitable contribution deduction for the full amount of your Adjusted Gross Income. However, this only applies to cash contributions to a public charity and it is for 2020 only. This means that you can reduce your 2020 taxable income to zero if cash gifts (not stock donations) are large enough and are given to a public charity.

I recognize that very few people have the ability and desire to give an amount equal to all of their income to charity—but there are some. Though most contribution limitations remain the same, with proper planning, some individuals can benefit from the increase in the cash limitation.

Remember that not all charitable deduction limitations were impacted by the CARES Act. For instance, gifts of marketable securities are still limited to 20–50% of AGI, depending on who gets the money and what type of asset is given. Another caveat is the treatment of contributions to a donor-advised fund (DAF). The CARES Act change doesn't apply to DAFs, and therefore contributions to these accounts are still limited to a maximum deduction of 60% of AGI for cash and 30% of AGI for appreciated stock donations.

3. **Qualified charitable distributions (QCDs) still apply.**

The long-standing rule that allows individuals aged 70 ½ to use their IRA for charity and exclude the income on their income tax return still applies in 2020. However, if you choose to not take your required distribution this year, the QCD will not lower taxable income as in previous years, it will merely be a tax-free event. But a tax-free event is still beneficial to you and for many taxpayers who cannot itemize charitable deductions this is still a very effective tax strategy for charitable giving.

The point of all of this is to emphasize that 2020 is a unique year for charitable giving due to the economic and social uncertainty that has befallen us. If you've wondered about how to help and do some extra "good" in your life, this is the year. Be sure to check in with your tax advisor before making any final moves to verify that the tax outcomes will be what you expect.

Taconic Advisors Update

News!

While the country has not been making very good progress at stemming the tide of the COVID-19 virus, Taconic Advisors has been moving forward with a number of key initiatives to expand our ability to take care of clients safely and effectively. We are making this a feature article to point out that it's important for clients of <u>any</u> advisory firm to know that their firm is in good financial and operational standing during these very unusual times.

In January we made a well-timed (actually a fortunately timed) move of all IT services to the cloud. As a result, when we were forced to shut down our physical offices in March to comply with NY State directives, it was a seamless move to service clients from our home offices. We have since returned to our offices and adhere to strict social distancing behaviors. In-person client meetings have been suspended at least through the end of September (and likely through the end of the year.) Clients have not batted an eye about this change and, for the most part, were already skilled at holding "distance meetings" with our advisory staff.

This move to the cloud also enhanced the security of storing sensitive information and includes multi-level security procedures to make sure that no hacker gains access to client records and that business continuity is preserved. In addition to these security measures, we are utilizing multi-factor authentication for logging into systems and adopted a firm-wide password protocol for creating and storing passwords. Another key change is that we no longer have any client information on our local encrypted computers. Like many businesses, our staff is mobile and moves between offices and home. With all client and firm information in the secure cloud, if a laptop were stolen or compromised, a thief would have no access to client information.

You may have noticed an increase in email phishing attempts and phone calls from "the IRS" or "Apple security services" this year. With more people staying at home, hackers have been able to reach people more often. Our staff is highly aware of email phishing attempts and is very careful to not open attachment or links sent by unknown parties. We remind clients to be extra cautious, as well. The IRS only contacts you via postal mail. NEVER give out any personal or account information to someone who calls you. One client was recently contacted by "Apple Security." They asked for the name of the client's bank. Then an accomplice called back the client and posed as a bank representative to try to obtain the account number! Be careful.

Finally, we have two new talented employees on staff.

Cathy Thiele is the new office assistant in the Saugerties office. She has returned to the Hudson Valley after working in the Office of the Provost at Gordon College (located north of Boston). Responsibilities during her 15-year career encompassed managing grant and development funding budgets, faculty position searches, academic and campus community events, and a weekly lecture series. She eventually become Executive Assistant and retired in June 2019 after 15 years of service.

Michelle Gaye is a CFP® Candidate who has been working in Financial Planning since May 2019, following several years of experience in financial analysis and accounting. She graduated from Marist College in 2015 with a 3.85 GPA and a B.S. in Finance, and she competed on and captained the Cross Country and Track teams. Michelle subsequently completed a Masters in Sport Management at Southern Methodist University in Dallas before identifying financial planning as the career choice that she wanted to pursue. Her passion for athletics and teamwork were a natural match for the goal-setting and coaching aspects of Taconic's practice. Michelle fulfills the role of financial planning assistant.

Welcome Cathy and Michelle! We're delighted to have you with us!

All in all, the year has been turbulent, but we are feeling very positive about the stability of our business operations and our ability to take care of clients. Thanks for your trust and continued business.

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