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AG Financial

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Act By The End Of 2020 For A Major Retirement Income Tax Break

A confluence of events have suddenly aligned to create a major tax planning opportunity for individuals who are currently taking IRS-mandated required minimum distributions (RMDs) from an individual retirement account or are about to start taking RMDs.

A provision of the CARES Act – the Covid crisis emergency aid law in effect since March 27, 2020 -- lets you skip your required minimum distribution in 2020. Since many individuals of RMD-age (72 and above) have been remaining homebound during the Covid crisis and are spending less, skipping all or part of an RMD is easy and often makes sense over the long term. Skipping an RMD in 2020 would leave that money in the IRA to compound tax-free over a longer time period.

Here's where the unusual alignment of factors takes a special twist. Instead of skipping your 2020 RMD and simply leaving it in your retirement account , you can withdraw all or part of it, pay the income tax on the withdrawal amount and use that amount to fund a tax-free Roth IRA!

Distributions taken as RMDs from pre-tax retirement accounts are always taxable whereas distributions from a Roth IRA are never taxable! Converting assets to a Roth IRA in this manner could provide tax-free income for years, and when you die, to your spouse and your IRA beneficiaries for the life of the Roth IRA.

2020 also happens to be a particularly good year to convert assets from a traditional pre-tax retirement account to a Roth IRA. Why? Because when you withdraw assets held in a traditional IRA or other qualified pre-tax retirement account, you will owe income tax on the withdrawals. The

(Continued on page 4)

Act Before The Tax Pendulum Swings Back

For business owners, professionals, and wealthy retirees, tax rules are about as favorable as they've been in decades, but the tax pendulum is likely to swing back the other way. You don't need to be a political pollster to know higher taxes are likely in the years ahead, with U.S. Government debt soaring and the U.S. Senate possibly changing parties. Now is the time to consider how a reset in tax policy is likely to affect you and your family.

Managing wealth requires tax planning. If investment management is the sizzle, tax planning is the steak.

Retirees, for instance, have a significant opportunity to create a lifetime tax-free income stream by converting to a Roth IRA. But they must act by the end of 2020 and getting it done correctly requires careful advanced planning and forethought.

The difficulty in tax planning is that it is entirely dependent on your personal situation, including complex variables such as the needs of your children or other heirs, your charitable inclination, your age and health and a host of other personal preferences. It's personal.

At the risk of sounding alarmist, today really is a good time for business owners, professionals, and families with wealth to be considering tax minimization strategies.

Business Owner Alert: Main Street Lending Program Offers Covid Aid

Business owners who were unable to qualify for federal Covid-crisis emergency assistance from the Payment Protection Program (PPP) need to know about the Main Street Lending Program (MSLP).

Enabled by the CARES Act on March 27, 2020, MSLP is administered by the Federal Reserve Board, which is not a normal function of the Fed. The program makes available $600 billion in federal aid to small businesses demonstrating sound financials before the Covid outbreak.

Like PPP, MSLP aid takes the form of loans with favorable terms. A very important difference from the PPP loan program, however, is that MSLP loans are not forgivable.

MSLP is intended to ease credit conditions for small business suffering from the Covid crisis. Some businesses may find its terms advantageous.

The minimum loan size is $250,000 and the term of each loan is five years. Significantly, no principal repayment is required for two years.

Ninety-five percent of the loan principal is advanced by the government. Your lender provides just 5% but receives a 1% annual fee on the full loan amount.

Despite offering an interest-free loan for one year and requiring nothing to be repaid for two years, requiring 70% of the loan be repaid at maturity – known as a balloon payment – carries a risk that must be considered in evaluating an MSLP loan. Other borrowing options should be considered in lieu of the MSLP loan program.

The Main Street Lending Program is new, and it was launched amid the Covid crisis. New terms governing MSLP loans were released on June 6, 2020, and are subject to change by the Federal Reserve Board at any time. The Fed released a lengthy FAQ about the program on June 26.

Proper evaluation of taking an MSLP loan requires an understanding of your personal financial and tax situation, your business' financial condition and other factors beyond the scope of this financial planning alert. Please contact us with questions. ●

How Negative Interest Rates In Germany Limit Pandemic Economic Damage To U.S.

While the coronavirus pandemic has exacted a once-unimaginable toll in human life, its financial cost is cushioned by an unusual confluence of global conditions shielding Americans from a much-worse economic catastrophe.

A country's economic growth is the product of two factors: growth in its labor force and productivity gains. National productivity gains can be altered or enhanced almost immediately by government policy or extraneous factors beyond government control. However, growing the labor force, even if a national policy to have more children were instituted today, would take 20 years to kick in. That's is the earliest time frame in which children born within the next year will start entering the labor force. To investors, 20 years is an eternity! Thus, a nation's economic growth hinges on an almost permanent axis based on national demographics.

Currently, the working age population in Germany is growing slowly relative to the U.S. This led the German central bank to lower interest rates to stimulate economic activity. Lending rates have been lowered so much that long-term German bonds are priced to trade at yields below zero. This means that bondholders of German government bonds are paying the government to keep their money!

Because bonds are traded worldwide and Germany is the second-largest supplier of sovereign bonds worldwide, negative rates in Germany have led investors worldwide to buy U.S Treasury bonds instead of lower-yielding German Bunds. That anomaly is causing U.S. long term bonds to rise in price and that in turn has depressed yields on U.S. Treasury debt. As a result, the massive aid packages are costing the U.S. Government next to nothing in terms of interest on the borrowings!

Covid, The Fed & American Exceptionalism

The Coronavirus financial crisis is being compared to the near collapse of the global financial system in 2008 and The Great Depression from 1929 to 1939, but there is one big difference this time: The Fed. The Federal Reserve Bank is using innovative new tools to contain the financial damage of the Coronavirus epidemic.

In the financial crisis of 2008, the chairman of the Fed at the time, Ben Bernanke, an academic who had spent decades studying previous financial crises, repeatedly deployed a technique called quantitative easing (QE). QE expanded the Fed's balance sheet to buy back U.S. Government bonds on the open market, thus, lowering long-term interest rates.

Never before had the tactic been used by a central bank in a major economy. It worked, however, and QE was one of the reasons the U.S emerged successfully from The Great Recession of 2008 and 2009. The Fed's present response to the Coronavirus crisis is literally 10 times more powerful.

Under the $2.2 trillion Coronavirus Aid, Relief, and. Economic Security (CARES) Act enacted March 27, 2020, the U.S. Government allocated $454 billion to Federal Reserve Bank Special Purpose Vehicles that the central bank can leverage 10 to 1, thus enabling it to lend up to $4.54 trillion to companies in financial distress.

That sum is reportedly more than all U.S. commercial and industrial loans outstanding at the end of 2019, plus all the new corporate bonds issued during 2019 combined! Although the expansion of the Fed's power has been criticized as a step toward a centrally planned economy, this government action limits the risk of potentially massive corporate bond defaults and corporate bankruptcies.

The U.S. led the worldwide economic recovery following the global financial crisis of 2008, in part because of the Fed's innovative approach. And now, this most recent display of Yankee ingenuity -- in the form of the Fed's new tools -- is at play once again in fighting the Coronavirus-induced financial crisis.

In these frightening times, the Fed's new toolset is likely to become a mere footnote in history books that will be written about the pandemic in the decades ahead. Ever since Alexander Hamilton established the first U.S. central bank in 1791 to respond to the financial crisis that followed the Revolutionary War, the uniquely American central bank has enabled the progress of civilization through financial crises. The U.S. Government response to the Coronavirus financial crisis is a shining example of what makes America exceptional among the nations of the world. ●

While this may seem academic, it has real world consequences. Anomalous global economic conditions are supporting greater U.S. Government largesse while adding a negligible amount to the long-term national debt. Negative interest rates in Germany are making it possible for Uncle Sam to bolster funding for the CARES Act, as well as programs like the Paycheck Protection Program, the Supplemental Nutrition Assistance Program (SNAP) for food stamps, the hike to unemployment insurance compensation payments and other U.S. Federal Government aid.

Conclusion: The U.S. is benefiting from foreign demographic trends in its fight to limit the pandemic's economic damage. ●

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(Continued from page 1)

unusual confluence of events making it possible for you to live on a lower income during the Covid crisis creates this unique tax saving opportunity for long-term investors who act before December 31, 2020.

With stock prices still off their all-time highs and continuing to suffer frequent and often vicious one-day drops, taking the opportunity to sell stocks in your retirement account and converting the proceeds into a Roth IRA makes particularly good sense. In addition to selling these stocks when they are relatively cheap, you would also be realizing the taxable income from the retirement account at a time when the Covid crisis has kept your expenses low.

Between now and the end of 2020, the unusual confluence of events makes it wise to evaluate skipping a required minimum distribution and converting to a tax-free Roth IRA. It is a major tax saving opportunity that you do not want to miss. ●