RESOLUTE FINANCIAL

Fee Only Financial Planning & Investment Management

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Resolute Connections

In this month's newsletter, *New Limits, New Rates* reviews the U.S. Internal Revenue Service adjustments to a variety of retirement plan contribution limits, tax rates and limits, and estate and gift tax limits for 2020.

Your Capital Gains Rate discusses how difficult in this day and age to determine what one exactly pays for taxes on gains resulting from the sale of investment.

Life Hacks That Will Save You Time summarizes some of the ingenious ways to overcome at least a few of the daily small challenges we all face, courtesy of a website called homehacks.com which routinely collects these tips and ideas from its readers.

And *Check and Balance* concerns one of the oddities about the American financial marketplace - how so many consumers prefer to keep their assets at the large Wall Street firms, which famously have sales cultures driven by multi-million dollar bonuses to their brokerage sales agents, and whose Broker Check reports read more like rap sheets than profiles.

If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

New Limits, New Rates

'Tis the season for the U.S. Internal Revenue Service to make its annual inflation adjustments to a variety of tax rates and limits, including higher estate and gift tax limits for 2020. In the coming year, individuals will be able to gift or exclude from federal estate taxes a total of $11.58 million—up from $11.4 million in 2019. The annual gift tax exclusion—the amount you can give to heirs each year without reporting a gift—remains at $15,000.

The IRS also lifted the annual limit that can be contributed to a defined contribution (401(k) or similar) plan from $19,000 to $19,500, and people 50 or older can make catch-up additional contributions of $6,500—up from 2019's $6,000. The amount you can contribute to an Individual Retirement Account is unchanged at $6,000, with a $1,000 catchup limit for people 50 and older.

If an employer allows after-tax contributions, or if you're self-employed, the overall defined contribution plan limit was raised from $56,000 to $57,000.

The IRS also changed the tax brackets for working Americans, raising slightly the thresholds for the 10%, 12%, 22%, 24%, 32%, 35% and 37% rates, and raised the standard deduction to $12,400—$24,800 for married people filing jointly in 2020.

Your Capital Gains Rate

This is a simple-sounding question that can be, in the real world of tax planning, very hard to answer. The simplest calculation is that, in 2020, under the just-released tax tables, single taxpayers will pay 0% capital gains taxes if their adjusted gross income is $40,000 or below, while joint taxpayers will pay 0% below $80,000 of adjusted gross income. After that, the 15% rate kicks in up to $441,451 (single) or $496,601 (joint). Above those income thresholds, taxpayers would pay at a 20% rate.

But of course, it is never that simple. You may also be subject to the net investment income tax, or NIIT, which adds 3.8% to the tax on your overall investment income—that is, the combination of all capital gains, plus interest, dividend, rental or royalty income. People have to add this tax if their modified adjusted gross income (their adjusted gross income plus their tax-exempt muni bond interest) exceeds $200,000 (single filers) or $250,000 (joint filers)—or, alternatively, if their net investment income surpasses those thresholds.

But those rates, complicated as they may be, apply only to traditional investments, like stocks, bonds, mutual funds and ETFs. Long-term gains on depreciable real estate investments are set at a maximum federal rate of 25%—plus the NIIT if applicable. It's actually more complicated than that: if you sold a rental house for a $100,000 gain, after claiming $40,000 of depreciation deductions, the first $40,000 of the gain would be taxed at a 25% capital gains rate, and the remaining $60,000 would be taxed at 20%. The NIIT would be added on if you exceeded the thresholds in the previous paragraph.

There's more. If you're selling collectibles like artwork, coins or stamp collections, or precious metal coins, bullion or precious metal ETFs, the maximum federal rate on long-term gains is 28%.

What about short-term capital gains? Those are taxed at the more complex ordinary income tables, with 10%, 12%, 22%, 24%, 32%, 35% and 37% rates.

Life Hacks That Will Save You Time

Navigating our day-to-day lives is not easy, and not always because we face huge transcendent challenges. It's the little annoyances and difficulties that persistently get in our way and frustrate our plans and schedules.

But over time, people have come up with ingenious ways to overcome at least a few of those small challenges—and a website called homehacks.com routinely collects these tips and ideas from its readers. Some of them are easy, like, when you find yourself trying to spread cold butter on a piece of bread, instead try rubbing the butter against a cheese grater to make it more spreadable. Or if you're trying to tighten or remove a stripped screw; try putting a rubber band between the screwdriver and the screw head, to make the screw easier for the screwdriver to grip. (Who knew?)

Want more? If you need to chill your white wine that was poured (ugh!) at room temperature, instead of dropping an ice cube in the wine glass and destroying the flavor, drop in a few frozen grapes. If you need to top off the oil in your car's engine but don’t have a funnel, hold a screw driver over the opening and pour the oil down the blade of the screwdriver—and avoid spilling even a drop.

Are your eggs fresh? How would you know just by looking at them? You can get a definitive answer by dropping the eggs in a container of water. The fresh ones will sink straight to the bottom. But if the eggs are going bad, they’ll float at least halfway up the container.

Have you ever rented a car, and pulled into a gas station, and then suddenly found yourself wondering which side of the car the gas tank is placed on? You can tell by looking at the direction of a little arrow in the middle of your fuel gauge that you probably never noticed before. It points to the side where you can fill the tank. Another hack: leaving a tea bag in your sneakers overnight, to eliminate smelly foot odor.

Suppose you lose an earring or other small piece of jewelry somewhere in the carpet? Wrap pantyhose around the face of the vacuum attachment, and run the vacuum over the carpet. Have you ever gone on the road and realized that you forgot the charging dock for your phone? Relax! Most hotel televisions have a USB port on the side.

Peeling boiled eggs can be a real hassle. But not if you drop the boiled eggs in ice water before peeling. The shells will slip right off. Want a super-secure password? Insert a character that isn’t used in the English language, like ñ or ß. Trying to find and peel off the edge of a roll of packing tape? Every time you finish with the tape, mark the edge with a paper clip, which holds the end of the tape above the roll so you can get at it easily.

Are you the kind of person who hits your fingers with a hammer when you’re driving a nail into the wall to mount a picture? Use a clothespin to hold the nail in place while you hit it with the hammer. The site also recommends that you clean your toilet with coca cola (the powerful carbonation dissolves grime and also removes rust), that you polish your car’s headlights with toothpaste, and that you color-code your many keys with different colored nail polish, so you always know which key fits into which lock. You can also put all your charger cords and plugs into a glasses case when you travel, and use a lint remover roller to clean your window screens. Who knew?

Check and Balance

One of the oddities about the American financial marketplace is how so many consumers prefer to keep their assets at the large Wall Street firms—which famously have sales cultures driven by multi-million dollar bonuses to their brokerage sales agents, and whose Broker Check reports read more like rap sheets than profiles. (Don't believe us? Type a famous brokerage firm name into the second box in the Broker Check website—https://brokercheck.finra.org/—and you'll get hundreds of thousands of listings of specific broker transgressions, fines, and examples where customers received arbitration awards after various kinds of financial abuse.)

The reason, of course, is that many people feel safer keeping their assets at a very large firm that they've heard of, rather than a smaller financial planning firm, even if that smaller firm often provides more customized service and has renounced predatory sales activities and commissions. But the interesting thing is that this may be a false comfort; the funds may actually be safer with the smaller planning office than with the larger multinational firm that buys Super Bowl advertisements.

How can that be? Under the rather stringent regulations imposed by the U.S. financial system, financial planning firms and investment advisory offices must custody client assets with a custodian—meaning that the actual investments and money is housed, not in the basement of the advisory firm or in its computer system, but, most often, at a large financial firm whose sole purpose is to safeguard the money, keep close track of it, and provide statements directly to clients showing that the money is where it is supposed to be. Having custody at one of the institutions is a very strong check-and-balance that is embraced and supported by the smaller financial planning offices. The planning or advisory firm doesn't ever have direct access to your money, and therefore would be unable to take it out or otherwise steal or misplace it.

Who are these custodians? The largest and most commonly used include Bank of NY/Mellon/Pershing, TD Ameritrade Institutional, Charles Schwab & Co. and Fidelity, each of which has between $500 billion and $1.5 trillion in advisor assets under custody. In contrast with the large Wall Street firms, which have been accused of defrauding customers and routinely appear in the news for regulatory fines, you can Google “examples of institutional custodians losing client money,” and see that there no examples, famous or infamous, large or small, of this important check-and-balance failing retail clients.

Does that mean you’re completely safe no matter who you work with? Of course not. The Bernie Madoff Ponzi scheme looked legitimate, but managed to evade this important check and balance by having a small company controlled by Bernie himself serve as the custodian. (Madoff could take the money back out and put it in his pocket whenever he wanted, and frequently did.) The large Wall Street firms also serve as their own custodians. Your safest avenue is to work with a financial planner or investment advisor who has a custodial relationship with a well-established institutional custodian, and you want to periodically check the statements sent by the custodian to make sure they match your advisor statements. Hundreds of thousands of clients can have their cake and eat it too: get better service AND enjoy improved safety of their assets.

Source:
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For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.