ClientLine®

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IS A ROTH CONVERSION RIGHT FOR YOU?

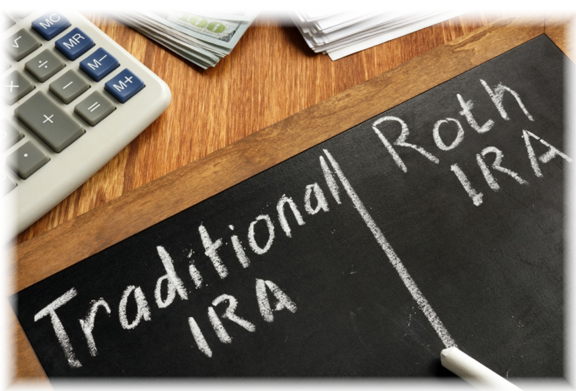
Roth IRAs offer many benefits, including federal income tax-free withdrawals, provided you follow the rules. You can convert a traditional IRA to a more flexible Roth IRA, but it will trigger a significant taxable event.

TAXES

Because contributions to a traditional IRA are tax deductible and earnings are tax deferred, you'll have to pay income taxes on all the funds you transfer in the year you execute the conversion. In a perfect world, you would pay taxes out of pocket, leaving more in your Roth IRA to continue to grow—income tax-free.

SOME DIFFERENCES

Traditional IRAs have required minimum distributions (RMDs) — and paying income taxes on those RMDs — every year after you reach age 72, (age 70½ if you attained age 70½ before 2020).* You have to take RMDs and pay the taxes even if you don't need the money.



Roth IRAs have no RMD requirement. In general, you can withdraw earnings without penalties or federal taxes as long as you're 59½ or older and you've owned the account for at least five years. (Some exceptions apply.)

WHO SHOULD CONSIDER CONVERTING TO A ROTH IRA?

A Roth IRA may be right for you if:

- You believe your tax rates will be higher in the future;
- Your income may be lower than usual this year;
- Your IRA account value is lower this year, due to the pandemic;
- You don't need the money to live on for at least five years;
- You want to leave the money to your heirs;
- You are concerned about estate taxes.

WHO SHOULD NOT CONVERT?

A Roth conversion may not be the best strategy if:

- You will need the money within five years;
- You're in a higher tax bracket now than you expect to be in retirement.

Consult your tax and financial professionals before taking action.

The CARES Act suspended RMDs for 2020.

Data Breaches

Industry studies show that data breaches cost small to medium businesses an average of $200,000.* These costs include customer notification, fines, investigation costs, defense attorney fees and the expense of providing affected individuals with a year of identity theft monitoring services after the breach.

Protect Your Business

- Provide data security training to all employees;
- Run automatic network virus scans and antivirus software updates;
- Download the latest operating system and software updates and patches;
- Purchase data breach insurance and consider cyber liability insurance and technology errors and omissions policies;
- Purchase umbrella liability coverage as a backstop for data breach insurance and other insurance policies. Umbrella coverage kicks in when the claim is greater than your primary insurance coverage limits and is generally very affordable.

**Hiscox Cyber Readiness Report 2019.*

2020 TAX CHANGES

2020 has been a big year for tax law changes. The SECURE Act is the most significant retirement reform law in at least a decade. The CARES Act provided tax breaks designed to help ease the economic burden of the Coronavirus and related shutdowns. These are just a few of the many changes affecting individuals this year:

- The SECURE Act raised the required minimum distribution requirement (RMD) for traditional IRAs from 70½ to 72 for anyone turning 72 in 2020 or later. Then, the CARES Act suspended RMDs for 2020 without penalty.

- Traditional IRA owners can now continue to make contributions past the age of 70½.

- If you were impacted financially by COVID you can take higher than normal distributions from your retirement account this year — up to $100,000 — without penalties. You have three years during which you can pay the income taxes on the distribution or repay the money to the plan. Plan loan repayments are also delayed for one year.

- Early withdrawal penalties on IRAs and 401(k) distributions of up to $5,000 are also waived for households with a new baby, including adoptions. Income tax is still due.

- Effective in 2020, non-spousal heirs can no longer stretch IRA distributions over their lifetimes. Instead, funds must be distributed within ten years of the original owners' death. (Some exceptions apply.)

- The CARES Act suspended the limit on deductions for cash donations by people who itemize (gifts to donor-advised funds and private nonoperating foundations are excluded). A new "above-the-line" deduction for cash donations of up to $300 is available for nonitemizers.

As we head into the final quarter of 2020, now's the time to schedule a year-end tax review. Some of these tax opportunities expire at year-end.

Client PROFILE....

Allen owns a small construction business and has been self-insuring property and casualty insurance risks using a captive insurance company. Is the IRS planning to crack down on these arrangements?

Businesses are allowed to create their own captive insurance entities to help cover risks that aren't covered by ordinary business insurance policies. These arrangements are perfectly legal — when structured properly. But some businesses have abused the privilege to avoid paying taxes. The IRS has signaled that it may audit more firms claiming deductions for payments to captive insurance entities.

Remember, the primary purpose of the captive entity must be insurance, not tax avoidance. Premium pricing should be actuarially sound and based on expected claims. The IRS will look at deductions for premiums paid to captive insurance companies that go years without ever paying a claim. The captive should not invest its float in "loans" to related parties.

Client Profile is based on a hypothetical situation.
The solutions we discuss may or may not be appropriate for you.

OPEN ENROLLMENT PLANNING

Open enrollment is an important process that usually takes place November 1 through December 15. But for employers, planning starts much earlier. Planning ahead can result in savings, a smooth enrollment process and ensure you are offering benefits that help recruit and retain the best talent. Here are some tips for success:

EVALUATE BENEFITS

Look at the menu of benefits you currently offer. Research has shown that after health insurance, many employees value low-cost options such as flex time, more paid vacation days and work-from-home options.

KEEP IT SIMPLE

Assume most employees know little about health insurance and retirement plans. Educate them on the basics.

USE OF MULTIPLE MEDIUMS OF COMMUNICATION

Consider your employees' age, education levels, English language skills and tech savvy. Then employ a combination of methods to get the word out. Don't rely on technology alone. Supplement it with employee meetings, email, envelope stuffers, and direct mail.

START EARLY

Get your plans, benefits and options out to employees a month before open enrollment. This gives your workers time to discuss their benefits with their families.

REMIND EMPLOYEES

Tax changes can throw withholding out of whack, so remind your staff to check how much is being withheld from their checks.

COMMUNICATE YEAR-ROUND

Communicate the value of your employee benefits and wellness packages all year round. This will help employees to appreciate that this is part of their compensation.

REAL MORTGAGE COSTS

Well-qualified borrowers may be able to get some very low mortgage rates on both purchases and refinance transactions. But the interest rate is only one of the factors to consider before you sign:

PRIVATE MORTGAGE INSURANCE

If your down payment is less than 20%, you may have to pay private mortgage insurance. This will add thousands of dollars to the cost of the loan.

FIXED VS. ADJUSTABLE

When interest rates go up your adjustable payment will increase accordingly. Fixed mortgage payments remain steady.

CLOSING COSTS

Fees are inevitable. In some cases, the seller may be willing to cover some or all of these costs.

INSURANCE

You'll need to cover homeowner's insurance. And depending on location, you may also have flood, hurricane/windstorm, or earthquake insurance premiums.

Q&A

Q **I own a small company and want to reward my employees during the holidays. What can I do for them without triggering a tax issue?**

A All forms of compensation are subject to income tax unless specifically exempted. So items like gift cards, savings bonds, and gift certificates are all reportable as taxable income on the employee's W-2. You'll also need to do the appropriate withholding and pay payroll taxes on this money.

Follow the Rules

To completely avoid triggering any tax issues for your employees don't gift cash and cash equivalents. Understand the de minimis rules which apply to gifts that are minor, of low value, infrequent, and administratively impracticable to track and report. Benefits that meet these requirements are generally not reportable as income.

The IRS does not identify any specific value as qualifying for de minimis treatment. Instead, the IRS looks at the overall nature of the gift, bonus, prize, or perk. Holiday gifts are generally okay if the value is so low that accounting for it is unreasonable or impracticable.

Bottom Line

You can probably provide a reasonable holiday dinner, lunch or party for your employees without reporting it as income – as long as it's not a common or recurring event. The same goes for holiday gifts like flowers and gift baskets of modest value.

ClientLine® SHORT BITS....

> SEC WHISTLEBLOWER REWARDS

Last April, The Securities and Exchange Commission (SEC) awarded more than $27 million to an individual whistleblower who alerted the agency to industry misconduct and provided critical investigative leads that advanced the investigation. This action saved the taxpayers millions of dollars. The SEC awarded $120 million to whistleblowers in 2019 alone. Since starting the program in 2012, the SEC has awarded approximately $425 million to 79 individuals for providing information on securities-related misconduct, corruption, and other criminal activity.

> AMERICA'S SAVINGS CRISIS

Personal finance experts frequently recommend having three to six months' living expenses set aside for the unexpected. But fewer than one in five – 18% – have six months' expenses saved, according to the Bankrate 2019 Financial Security Index. A Federal Reserve study found that half of American households don't have an emergency fund at all. And that was before the Coronavirus job losses. Today 25% of homeowners say they have less than $500 that they could access in case of an emergency, according to a June 2020 study by Homeserve.com.

> WATCH THOSE CREDIT CARD BALANCES!

According to Experian, Baby Boomers (ages 55-73) and Silent Generation members (74 and older) lowered their balances by 1% in 2019. Meanwhile, younger generations have racked up higher balances. Generation Xers owe the most of all the age cohorts with average balances of $8,023 – an increase of 3% year-over-year. Millennial balances increased by 7%, to $4,702. Generation Z consumers have average balances of just $2,057, but that's up 11% over last year.