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Hi Everyone,

I want to wish everyone a Happy Holiday Season, Happy Hanukkah, Merry Christmas, and of course a Happy New Year!

The economy is going very well. Can't say enough about the new USMCA trade agreement, and it's effect on markets. Also, the agreement with the Chinese looks like it is materializing. All good for the markets of course.

So January will be an interesting month as we go into 2020.

Best Regards,

Paul B. Miller, CFP®

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PAUL B. MILLER, CFP®
Proactive Financial Planning
INDIAN RIVER FINANCIAL GROUP, INC.

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Qualified Charitable Distributions: Using Your IRA to Give from the Heart

The Tax Cuts and Jobs Act roughly doubled the standard deduction ($12,200 for single filers and $24,400 for married taxpayers filing jointly in 2019) and indexed it for inflation through 2025. As a result, far fewer taxpayers will itemize deductions on their tax returns, and some people may be disappointed that they no longer benefit from writing off their donations.

If you are 70½ or older, you can use a qualified charitable distribution (QCD) to donate from your IRA and get a tax break, whether you itemize or not. Not coincidentally, this is the same age you must begin taking annual required minimum distributions (RMDs), which are normally taxed as ordinary income, or face a 50% penalty on the amount that should have been withdrawn.

QCDs satisfy all or part of any RMDs that you would otherwise have to take from your IRA. Better yet, QCDs are excluded from your income, so they help lower your adjusted gross income (AGI) as well.

How QCDs work

The IRA custodian must issue a check made out to a qualified public charity (not a private foundation, donor-advised fund, or supporting organization). In some cases, the IRA custodian may provide a checkbook from which you can write checks to chosen charities. Be aware that any check you write will count as a QCD for the year in which it is cashed by the charity, whereas a check from the custodian counts for the year in which it is issued.

You can take an RMD any time during the year you turn 70½, but you must wait until after you are 70½ to make a QCD. The QCD exclusion is limited to $100,000 per year. If you're married, your spouse can also contribute up to $100,000 from his or her IRA. You cannot deduct a QCD as a charitable contribution on your federal income tax return — that would be double-dipping.

A QCD must be an otherwise taxable distribution from your IRA. If you've made nondeductible contributions, then each distribution normally carries with it a pro-rata amount of taxable and nontaxable dollars. With QCDs, the pro-rata rule is ignored, and taxable dollars are treated as distributed first.

Tax perks for givers

If you no longer itemize, you could reduce your tax bill by donating with QCDs from your IRA instead of writing checks from your standard checking account. And if you still itemize, QCDs might prove more valuable than tax deductions. That's because they can help address tax issues that might be triggered by income from RMDs.

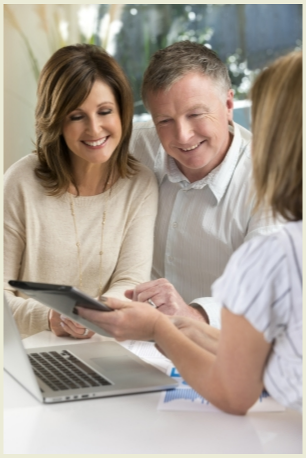
For example, an itemized deduction reduces your taxable income by the amount of the charitable gift, but it does not reduce your adjusted gross income. This is a key distinction because the 3.8% tax on net investment income, Medicare premium costs, taxes on Social Security benefits, and some tax credits are based on AGI.

Also, charitable giving can typically be deducted only if it is less than 60% of your adjusted gross income. But with QCDs, you may be able to give more than 60% of your AGI and exclude the entire amount (up to the $100,000 cap) from your taxable income.

Time for a rollover?

Qualified charitable distributions are available from traditional IRAs, Roth IRAs (with taxable amounts), and inactive SIMPLE or SEP IRAs, but they are not allowed from employer retirement plans such as 401(k)s and 403(b)s. Thus, you might consider rolling funds from an employer plan to an IRA if you want to take advantage of a giving strategy that involves QCDs.

Estate Planning: Consider the Tax Basis of Gifted or Inherited Property



An asset's tax basis can be important when deciding whether to make gifts now or transfer property at your death. When you make a gift of property during your lifetime, the recipient generally receives your basis in the property. When you transfer property at your death, the recipient generally receives a basis equal to the fair market value of the property as of the date of your death. The difference can substantially affect the amount of taxable gain when the recipient sells the property.

Tax basis can be important when deciding whether to make gifts now or transfer property at your death. This is because the tax basis of the person receiving the property depends on whether the transfer is by gift or at death. This, in turn, affects the amount of taxable gain subject to income tax when the person sells the property.

What is tax basis?

The tax basis of an asset is used when determining whether you have recognized a capital gain or loss on the sale of property for income tax purposes. (Gain or loss on the sale of property equals the difference between your adjusted tax basis and the amount you realize upon the sale of the property.) When you purchase property, your basis is generally equal to the purchase price. However, there may be some adjustments made to basis.

What is the tax basis for property you receive as a gift?

When you receive a gift, you generally take the donor's basis in the property. (This is often referred to as a "carryover" or "transferred" basis.) The carryover basis is increased — but not above fair market value (FMV) — by any gift tax paid that is attributable to appreciation in value of the gift. (Appreciation is equal to the excess of FMV over the donor's basis in the gift immediately before the gift.) However, for the purpose of determining loss on a subsequent sale, the carryover basis cannot exceed the FMV of the property at the time of the gift.

Example: *Say your father gives you stock worth $1,000 and the gift incurs no gift tax. He purchased the stock for $500. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is $500. If you sold the stock for $1,000, you would have gain of $500 ($1,000 received minus $500 basis).*

Now assume that the stock is only worth $200 at the time of the gift and you sell it for $200. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is still $500, but your basis for determining loss is $200. You do not pay tax on the sale of the stock. You do not recognize a loss either. In this case, it would have been better if your father had sold the stock (and recognized the loss of $300 — his basis of $500 minus $200 received) and then transferred the sales proceeds to you as a gift.

What is the tax basis for property you inherit?

When you inherit property, you generally receive an initial basis in property equal to the property's FMV. The FMV is established on the date of death or on an alternate valuation date six months after death. This is often referred to as a "stepped-up" basis, since basis is typically stepped up to FMV. However, basis can also be "stepped down" to FMV.

Example: *Say your mother leaves you stock worth $1,000 at her death. She purchased the stock for $500. Your basis in the stock is a stepped-up basis of $1,000. If you sold the stock for $1,000, you would have no gain ($1,000 received minus $1,000 basis).*

Now assume that the stock is only worth $200 at the time of your mother's death. Your basis in the stock is a stepped-down basis of $200. If you sold the stock for more than $200, you would have gain.

Make gift now or transfer at death?

As the following example shows, tax basis can be important when deciding whether to make gifts now or transfer property at your death.

Example: *You purchased land for $25,000. It is now worth $250,000. You give the property to your child (assume the gift incurs no gift tax), who then has a tax basis of $25,000. If your child sells the land for $250,000, your child would have taxable gain of $225,000 ($250,000 sales proceeds minus $25,000 basis).*

If instead you kept the land and transferred it to your child at your death when the land is worth $250,000, your child would have a tax basis of $250,000. If your child sells the land for $250,000, your child would have no taxable gain ($250,000 sales proceeds minus $250,000 basis).

In addition to tax basis, you might consider the following questions:

- Will making gifts reduce your combined gift and estate taxes? For example, future appreciation on gifted property is removed from your gross estate for federal estate tax purposes.
- Does the recipient need a gift now or can it wait? How long would a recipient have to wait until your death?
- What are the marginal income tax rates of you and the recipient?
- Do you have other property or cash that you could give?
- Can you afford to make a gift now?

FIRE: Four Things You Need to Know About This Hot Retirement Movement

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, doing so can help you focus on your overall financial objectives, identify sound strategies, and consider opportunities that could have a substantial effect on your long-term financial situation.

Many workers look forward to the day they can finally retire, and for some, an early retirement would be a dream come true. Others are turning this dream into a reality by retiring in their 30s or 40s. But how are they able to do it?

A hot retirement trend called Financial Independence, Retire Early (FIRE) has gained momentum among younger workers who are taking steps to leave traditional career paths and enjoy an early retirement. While an early retirement sounds ideal, it requires careful planning, savvy saving and investing habits, and potentially big sacrifices.

1. FIRE means implementing an aggressive retirement plan

The goal of FIRE is to save and invest aggressively so that retirement is possible at a younger age — even decades earlier than the traditional retirement age. Individuals who pursue FIRE aim to increase their income as well as keep expenses extremely low. The higher an individual's income is and the lower his or her expenses are, the faster that person may be able to accomplish FIRE. Typically, the following steps are part of the process.

- **Calculating estimated retirement expenses.** A general guideline of FIRE is to save 25 times the annual amount the individual will spend in retirement. This number comes from the 4% rule, which suggests an annual withdrawal rate of 4% from an individual's savings. It sounds simple, but this formula doesn't account for a number of different factors, such as existing debt and inflation.
- **Cutting expenses.** This often means making major lifestyle changes. Some FIRE followers give up owning a car or move to an area with a lower cost of living. Others practice a number of frugal habits, such as cooking at home instead of dining out, shopping at discount stores, and cutting cable and mobile phone services.
- **Saving and investing wisely.** FIRE followers carefully monitor their portfolios and update them periodically. They might also increase savings by maximizing contributions to applicable retirement plans.
- **Boosting income.** Selling unneeded/unwanted items and pursuing a side hustle/additional part-time work are some ways FIRE followers might try to increase monthly income.

2. It has fervent supporters...

The main ideas behind the FIRE movement originated in the 1992 book *Your Money or Your Life* by Vicki Robin and Joe Dominguez, as well as the 2010 book *Early Retirement Extreme* by Jacob Lund Fisker. In the years since, many blogs, podcasts, and online forums have cropped up to share information about FIRE and popularize the concept as a whole.

Many FIRE supporters are attracted to the movement because they dislike their jobs or feel that they work too much. Those who follow FIRE believe that it encourages a more meaningful life because it provides freedom to pursue true passions. FIRE creates flexibility in retirement because people can still work and/or earn a passive income, but with the luxury of determining what type of work to do, when it's done, and for how long.

3. ...as well as outspoken critics

Many vocal critics have expressed doubts about the FIRE movement. Some believe it's an unrealistic approach to retirement because it's impossible to know how an individual's financial needs will change over time. Life (and the markets) can be unpredictable, and critics argue against embracing the unknown.

Other critics maintain that FIRE simply isn't attainable for the average worker. Those who don't earn a large enough income may struggle to save so aggressively, particularly if they are caring for one or multiple dependents.

4. There's more than one way to practice FIRE

There are multiple approaches to FIRE. Some may choose to abide by Fat FIRE rules, which means living a more traditional lifestyle but saving more than the average retirement investor. Conversely, others stick to minimalist living and extreme saving, resulting in a much more restricted lifestyle in a practice known as Lean FIRE. Other styles include Barista FIRE (quitting a traditional 9-to-5 job in favor of part-time work to help boost income as well as obtain health insurance or other benefits) and Coast FIRE (working part-time to cover expenses after having saved enough to fund retirement).

No matter how FIRE is practiced, it requires a long-term commitment that might not be suitable for everyone. A financial professional can help you review all your options for pursuing an early retirement.

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Should I sign up for an identity theft protection service?

Unfortunately, data breaches are now normal, everyday occurrences in our society. As a result, many companies are offering services to help you protect your personal information. If you want an extra layer of protection, an identity theft protection service is a good option. However, the term "identity theft protection service" can be misleading. The reality is that no one service can safeguard all of your personal information from identity theft. What most of these companies actually provide are identity theft monitoring and recovery services.

A monitoring service will watch for signs that an identity thief may be using your personal information. This typically includes tracking your credit reports for suspicious activity and alerting you whenever your personal information (e.g., Social Security number) is being used. The recovery portion of the service usually helps you deal with the consequences of identity theft. This often involves working with a case manager to help resolve identity theft issues (e.g., dealing with creditors or placing a freeze on your credit report). And depending on the level of protection you choose, the service may also provide reimbursement for out-of-pocket expenses directly associated with identity theft (e.g., postage, notary fees) and any funds stolen as a result of the identity theft (up to plan limits). Identity theft protection services usually charge a monthly fee. Entry-level plans that provide basic protection (e.g., Social Security number and credit alerts) can cost as little as $10 a month, while plans that offer more advanced features (e.g., investment account monitoring) will cost more.

Keep in mind there are steps you can take on your own to help protect yourself against identity theft, such as:

- Check your credit report at least once a year for errors
- Periodically review your bank and debit/credit card accounts for suspicious charges/activity
- Obtain a fraud alert or credit freeze if necessary
- Have strong passwords, use two-step authentication, minimize information sharing, and be careful when shopping online

Do gift cards expire?

Gift cards are popular and convenient gifts (to give and receive) for many occasions. But is it possible for gift cards to expire before they're used?

The short answer is yes: Gift cards can expire. But federal laws help protect consumers by regulating when gift certificates and cards expire. The Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act) established fair and transparent practices related to the issuance of credit, restricting what credit card companies can charge consumers. It also enacted regulations to limit fees, expiration dates, and unexpected costs from gift cards. The rules limit dormancy, inactivity, and service fees on gift cards.

1. Dormancy fees cannot be imposed unless the card has been unused for at least one year
2. Only one dormancy fee can be charged each month after the first year
3. The consumer must be given clear and prominent disclosures about fees

The CARD Act also states that gift cards cannot expire until five years after the date the card was purchased or the date money was last loaded onto the card.

While the CARD Act set consumer protections at the federal level regarding gift certificates and cards, it left room for regulation at the state level. Many states have their own gift card laws that can take precedence over federal gift card laws. Find out whether your state has passed any gift card laws by reviewing the chart located on the National Conference of State Legislatures website.

Even though you're now familiar with the basic rules and regulations associated with gift card expiration, you might still discover that a gift card you've given and/or received has expired because it was misplaced or forgotten. As a precaution, try to use any gift cards that you receive as soon as possible. This will help ensure that they retain their full value. Read the terms and conditions associated with your gift cards to find out whether they have any fees, and when those fees might be applied.

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