The
FINANCIAL UPDATE

DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

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How To Give Gifts And Not Trip On The Gift Tax

It may be better to give than to receive, as the old saying goes, but it's also best to avoid the taxes on your generosity. What's also smart is knowing when you have to file a tax form as a gift giver.

You can give one person up to $15,000 yearly without incurring any taxes. In fact, you can give multiple people a gift of up to that amount, and they don't even have to be related to you — your son, your daughter, your best friend, your manicurist, whoever.

So, if you give your favorite niece $25,000, you only owe taxes on the $10,000 above the $15,000 limit. And a gift need not be cash. It could be stock or real estate or cars.

What's more, the limit is per person, not per couple. Your spouse could give that lucky soul the same amount, doubling your household's giving and you're personally still staying under the yearly $15,000 ceiling. Note that only you, the giver, are on the hook to pay any tax, and not the recipient.

The tax stops people from giving all their money and property away during their lifetimes to skirt the estate tax when they die. The good news is that — with a little planning — you don't have to pay the gift tax right away, and maybe never.

In addition to the $15,000 per recipient annual limit, there's a lifetime exclusion amount, $11.4 million in 2019 — this covers *all* your lifetime giving to everybody. With the lifetime exclusion, your estate pays what you gave in excess of that cap.

The lifetime exclusion allows people more freedom to give big gifts. Example: You give your sister $40,000 this year. The extra $25,000 ($40,000 gift minus $15,000 annual exclusion) is taxable. Instead of paying that tax now, you count it against the $11.4 million

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The Leading Edge Of Financial Planning

We'll soon begin to publish a monthly Flash Report to alert you to especially pertinent financial planning ideas. In our first report we'll focus on Qualified Opportunity Funds, providing investors a way to reduce capital gains taxes while improving communities.

In the following months, watch for new perspectives on the power of charitable remainder trusts, money-saving advice on purchasing life insurance and the importance of personal umbrella policies. We'll also provide useful insight on the five big mistakes executors make with estates and how to avoid them.

These Flash Reports will be available on our website for your future reference. If there are topics you'd especially like to have us address, please email us at **info@dayandennis.com**.

If you would like to sign up for the Flash Report email distribution, please do so on our website, **www.dayandennis.com**. As always, we remain available to answer your questions at (478) 474-7480 in Macon and (706) 400-5763 in Blairsville.

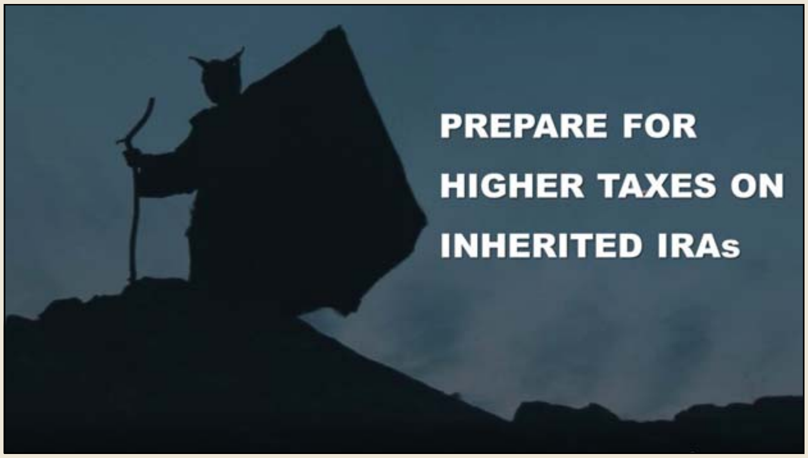
Sincerely,
Day & Ennis, LLC

Prepare For A Sweeping New Law On Retirement Account Taxes

A sweeping new law changing retirement investing tax rules was passed by the House of Representatives on May 29th. It's expected to be passed by the Senate and has the support of President Donald J. Trump. Although the legislation may not be signed into law until late this year, individuals with retirement accounts should consider how its enactment will affect them and their beneficiaries. Here's what you need to know now:

Secure Act Misnomer. The legislation is referred to as the Secure Act. Often buried or unmentioned in coverage is the full name of the legislation, "Setting Every Community Up for Retirement Enhancement Act of 2019."

Kills Stretch IRAs. A popular strategy for stretching tax deferral would be eliminated by the proposed law. The legislation's sweeping changes would kill stretch IRAs and represents a move to higher taxes on IRA beneficiaries. Non-spouse beneficiaries of Individual Retirement Accounts (IRAs) would no longer be permitted to defer taxes on payouts of inherited IRA over their expected lifetime after 2019. Under current rules, you could leave an IRA to your children and your heirs who can take distributions from that IRA based on their life expectancy. This allows those inheriting IRAs to stretch deferral of taxes over many decades, and the IRA account compounds without being taxed in this period. Under the proposed change, heirs would be required to distribute an inherited IRA over 10 years.



Exceptions. The proposal carves out an exception for minors — 18 or 21 in most states — until they reach the age of majority, and then they would be required to distribute the assets in the IRA over 10 years. A surviving spouse, those who are chronically ill or disabled are among those not affected by the new 10-year payout rule.

Beginning Date Of Required Minimum Distributions (RMDs). The new law would push back the age at which you must begin withdrawing money from an IRA. Under current law, you are required to begin taking distributions on the 1st of April following the year you turn age 70½. Under this new statute, that's going to be pushed back to age 72.

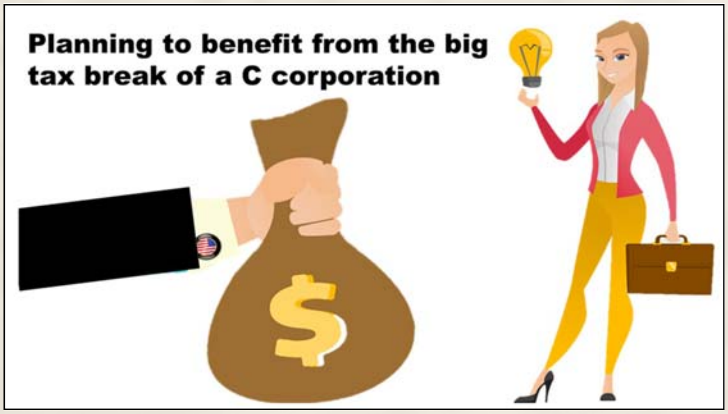
Stay Tuned. Waiting till the legislation is signed into law may not leave enough time to adjust your plans and minimize taxes for yourself and loved ones, and the legislation makes changes so sweeping and so new that its effects on long-term financial plans are still being researched. Please watch this space to learn details about ways to shield yourself and your beneficiaries from higher taxes on IRA payouts in the weeks ahead. Tax panning requires a qualified tax professional and personal attention. This is an early warning about an important issue affecting strategic long-term tax planning and not intended as tax or legal advice. ●

How To Sell Your Small Business And Pay No Taxes

So, you want to sell your small business? The good folks in Washington have a dandy tax break exempting you from all federal taxes on the sale—provided that you own a C corporation.

A lot of attention has gone to the special "pass-through business" break from the new tax law. This benefits income from S corporations and others like it, giving owners a 20% exemption on their business' earnings. That highly popular provision in the Tax Cuts and Jobs Act makes it seem like small business owners would be idiots to classify their company as a C corp.

Well, except for the terrific advantage you get as a C corp seller, which has been available for many years. Aside from the TCJA exemption and the lack of double taxation, C corps are taxed at the corporate level and then the owners get taxed on what they reap after that. In contrast, pass-throughs, like S corps, LLCs, and other partnerships, are only taxed once. C corp shareholders pay zero tax on a company sale, as long as they acquired the shares on or after Sept. 28, 2010. That's a huge tax break!



U.S. - China Trade War Coverage Distorts Economic Reality

The amount of coverage in the media of the U.S. - China trade war is far out of proportion with the potential impact that China - U.S. trade has on the U.S. economy.

U.S. exports to China comprise just 1% of U.S. GDP. In the $19-trillion-dollar U.S. economy, the 1% of activity with China is inconsequential. However, Chinese exports to the U.S. comprise 4.1% of China's GDP, which means China has much more at stake.

These facts seemed lost from the recent trade war coverage. Unfortunately, the alternate reality in the media misinforms, misleads and confuses investors. It's no conspiracy or bias, and it spans all political biases. Its journalists trying their best to explain the world. But it is a sign of the times, of a world in which the media's power to reach masses outstrips its understanding of our complex world. Consequently, coverage of the trade war with China was a grotesquely distorted reflection of economic and financial facts. It's no wonder so many investors have trouble adhering to a discipline.

Admittedly, there is much we do not know about the inner workings of the economy. Even Janet Yellen, former chair of the U.S. Federal Reserve Bank, the woman who led the U.S. out of The Great Recession into The Great Expansion, admitted live on CSPAN in September 2017 that the low inflation rate was a mystery to her. And, talk about mysteries, how about productivity? Surging in recent months, productivity caused a totally unexpected U.S. growth spike in the first quarter of 2019 and may be more important to U.S. growth than inflation for the rest of 2019 and 2020. And productivity growth is even more perplexing!

As a result, some people think investing is like gambling at a casino, or betting on a horse, and makes many think investing is not connected with facts. That's just untrue! We do know a few things about the economy that are important to investors:

Consumers drive 70% of economic growth in America.

Economic growth drives S&P 500 profits.

Profits drive stock prices.

Stock prices don't always reflect fundamental economic trends, and past performance never guarantees future results. But economic fundamentals are the key determinant of corporate profits over the long-run, and economic fundamentals remained strong through the recent trade war scare. That's why stocks didn't come undone despite the media frenzy over the trade war with China.

While not everything about the economy is understood, facts matter. It's wise to stay focused on economic fundamentals. If you're investing for the long-run, lest you risk being influenced the media sometimes grotesquely distorted reflection of economic facts. ●

The gracious 100% tax exclusion is available to anyone with stock in a C corp for over five years. Taxpayers get a smaller break on shares owned before Sept. 28, 2010. You're also entitled to a 5% exclusion on C corp shares owned from Aug. 9, 1993 to Feb. 17, 2009. C corp shares purchased between Feb. 18, 2009 to Sept. 17, 2010 receive an exclusion on 75% of the gain on the purchase price in the event of a sale. If you owned your C corp shares prior to Aug. 9, 1993 date, you're out of luck.

To get this tax-favored status, called a Qualified Small Business Corporation, or QSBC, a small company must meet a batch of requirements. The business' gross assets must be less than $50 million, and the exclusion is capped at the greater of $10 million or 10 times the aggregate basis of the stock the taxpayer sold during the tax year.

Say you sell your business for $10 million. If the QSBC break didn't exist, and your capital gains rate is 23.8% (the top rate of 20%, plus a 3.8% surtax for singles making more than $200,000 annual or couples hauling in over $250,000), you'd owe $2.38 million to the IRS. But thanks to the QSBC benefit, you'd owe the government zilch.

And here's a kicker. Both C corps and pass-through businesses are helped by the new, lower federal tax on companies, 21%, down from 35%. ●

Give To Charity From An IRA To Lower Your Tax Bill

To keep your tax bill down, if you are over 70½, consider a qualified charitable contribution, which makes donations of up to $100,000 from an Individual Retirement Account (IRA) to a fully deductible charity.

A qualified charitable distribution (QCD) lets you donate from a traditional or inherited IRA, provided you meet the age requirements.

A QCD can help you eliminate, or at least reduce, taxes owed on your required minimum distribution (RMD). That's the amount you are required to take out of your IRA account annually after turning 70½.

Example: Your yearly RMD is $20,000, which counts as taxable income. But if you donate that amount to a charity, it's not counted as income, which may drop you into a lower tax bracket.

Moreover, you don't have to itemize to take this tax deduction. That's good news for Americans no longer itemizing deductions on their returns. To be sure, some taxpayers are hurt by the Tax Cuts and Jobs Act's $10,000 cap on state and local tax deductions, so a qualified charitable distribution can make sense.

You don't have to donate the entire amount to a single charity. You can divvy up a QCD among multiple IRS-eligible charities, within the $100,000 annual limit. You don't have to use 100% of your RMD for the donation, of course, and can keep what you need to pay for your living expenses and donate the rest.

QCDs require careful attention to ensure your donation is made from an individual retirement account — not a 401(k) or 403(b). In addition, you may not make a QCD and also itemize charitable deductions. You must pick one. Plus, the charity must not be a private foundation or a donor-advised fund. These technical details are crucial.

Another QCD tip: Make the contribution straight from your IRA. The RMD money must never be in your personal, non-IRA account. Send your IRA custodian instructions to send the check directly to the charity, with the organization's name on the check. Have the IRA custodian send you documentation that you made the donation.

Finally, be sure to make the donation before you take your RMD. Should you take the RMD first, you can't give the money back to the retirement account and will be ineligible to deduct it.

The QCD is a fairly complex solution to lower taxes and requires the advice of a qualified tax professional. ●

How To Give Gifts And Not Trip

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lifetime number. After subtracting that $25,000 from the lifetime exclusion, you have $11.375 million still to go.

It's rare for most Americans to go over the $11.4 million lifetime giving limit. But if you're well-heeled and very generous — your daughter's destination wedding in Corsica costs a bundle — then you can hit it. The gift tax rate ranges from 18% to $40%.

About filing with the IRS: Every year you go over the $15,000 exclusion level, you need to file a Form 709. That way, the government can track who is on the road to reaching the lifetime $11.4 million exclusion.

Some things may not seem to be gifts, but are, and you're required to file the form, like that large sum you blew on your daughter's costly nuptials. Or that $100,000 you just plugged into

your grandchild's 529 college saving plan, which means $85,000 of it is potentially taxable. And if you make an interest-free loan to a friend, the IRS sees it as a gift, too.

Some gifts are tax-free, provided that you give them the right way. Such as gifts for medical or educational expenses. Should you pay someone else's hospital bill, don't give the money to the patient, who then settles medical tab themselves. You pay the hospital directly. Ditto for education. Instead of giving the money to the student, write the check to the school. Giving to your spouse or a charity is also totally free from the gift tax.

One sure thing about gifts is that they make people happy. Staying within the rules makes the tax man happy, too. It's best to consult a qualified tax professional about this topic, and we are here to help. ●

John R. Day CPA/PFS **Bill Ennis CPA/PFS** **Stephanie Davidson CPA CFP** **Matt Heller MBA CFP**
Macon, Ga (478) 474-7480 **Blairsville, Ga (706) 400-5763** **www.dayandennis.com**