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NFI, LLC

Financial Insights

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2021 Year End Tax Planning: Higher Stakes And More Confusing Than Ever

Year-end tax planning is more important than usual because it occurs concurrently with a turning point in U.S. tax policy. For the first time in 40 years, taxes on income and wealth transfers are headed higher.

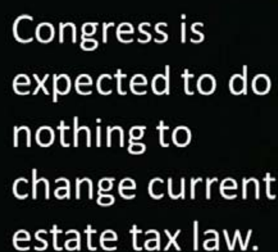
Exactly what's about to happen – which provisions of the estate and income tax laws will be revised and the financial impact on high income and high net worth individuals – is uncertain. It depends on Congress, politics, the economy and financial markets, thus making it impossible to predict.

President Joseph R. Biden, Jr., was elected running on a platform that included a proposal to slash the estate tax exemption accorded individuals from $11.7 million to $3.5 million. By early September, however, fears of an imminent hike in estate taxes dissipated. Congress was expected to do nothing to change current estate tax law. Why?

Doing nothing is politically expedient. Neither party would be faulted for letting current lapse. The "sunset" of current estate tax rules would mean the 2021 individual exemption of $11.7 million would continue to rise with inflation annually until December 31, 2025. Starting January 1, 2026, however, the individual exemption from estate tax would revert to about $6 million (assuming inflation does not sharply escalate).

The $11.7 million exemption currently accorded individuals $23.4 million for couples – would be slashed by more than 50% – if Congress does not act. For estate planning purposes, individuals with taxable estates can relax a bit but need to stay informed through the end of 2021, just in case the situation changes.

Meanwhile, federal income tax hikes on high income individuals – specifically, tax-filers with more than $400,000 of income, are expected to be



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In An Era Of Financial Windfalls, Avoid This Mistake

In this era of economic and investment volatility, fortunes are being made -- and lost!

Whether you just won the lottery or earned a huge bonus for performing more procedures than any of your partners last year, here's important information about what to do next.

If you're fortunate enough to come into a windfall, it's important be aware of a mental accounting mistake known in behavioral finance as the "house money effect."

After a lucky roll of the dice, gamblers fall victim to the "house money effect," thinking of winnings as a separate pile of cash that could afford to be lost, when that "funny money" is really no different than any other assets.

Whether you received an inheritance, took an employee buyout, won a lawsuit settlement, or sold your business, home, or yacht, you don't want to make this mental accounting mistake by treating a windfall cavalierly.

Before you do anything foolish, stop; take a breath, and think strategically by creating a plan to build on the opportunity by making a strategic plan.

Making A Life-Changing Financial Difference To A Spouse And Needy Loved Ones

Tax law and estate planning might bore you to death, but this brief tip could make a life-changing financial difference to your surviving spouse, and other loved ones, including disabled and chronically ill family or friends, as well any minor children in your life.

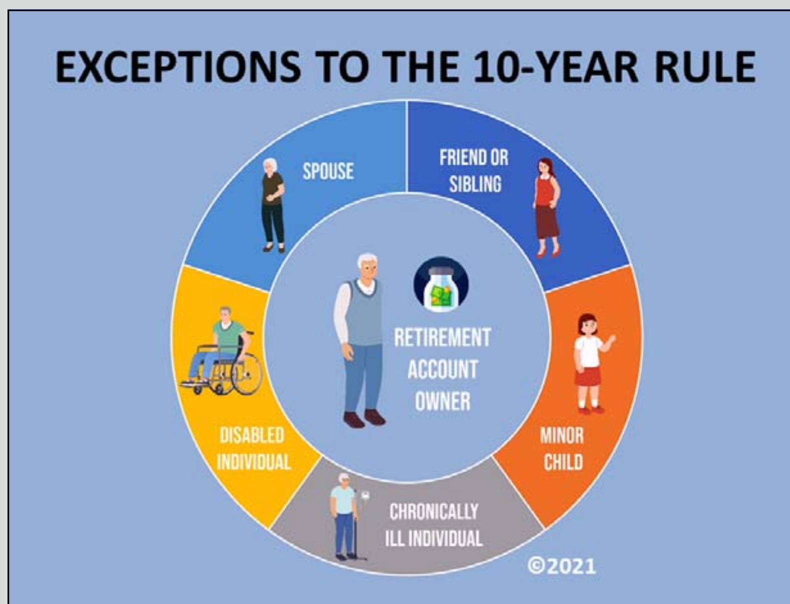
These individuals are among the five exceptions to the usual distribution rules on the inheritance of assets in IRA, 401(k), or other federally qualified retirement plans.

New rules, that went into effect on January 1st, 2020, with the enactment of The Secure Act, require the beneficiary of inherited IRA or 401(k) accounts to deplete the money in those accounts within 10 years. It was a technical change that many overlooked in the rush of tax law changes that occurred in 2020 during the pandemic. But it made a big difference in tax planning.

To be clear, until 2020, beneficiaries of an inherited IRA or 401(k) were not required to liquidate an inherited account within 10 years, as is now required, which had left open a major tax break: They had the option to stretch out distributions over their actuarial life expectancy, thus, leaving the assets to compound tax-free for a much longer period. The 10-year mandatory distribution rules carved out some key exceptions for certain individuals that now require attention, if you intend to pass on your retirement plan, IRA, or other qualified plan assets to a spouse, chronically ill or disabled individual or minor child.

For a disabled individual, who inherits federally qualified retirement assets, for instance, stretching out distributions over decades could transform the inheritance into an income stream for life. The same is true for a widower, chronically ill individual, or minor child that inherits your retirement account.

In addition, a fifth exception to the usual distribution rules applies to a beneficiary that is less than 11 years younger than the retirement account owner. A sibling or friend who is 10 years or less your junior, who inherits qualified retirement account assets, also may use their life expectancy -- instead of taking required distributions over 10 years.



If you own a sizable IRA, 401(k) or other qualified account, and your beneficiary is your spouse, a friend or sibling 10 years or less younger, an individual with a disability, chronic illness, or a minor child, the five exceptions to the 10-year rule pose complicated tax planning as well as legal and investment issues requiring personal advice from a professional that is beyond the scope of this article. ●

Why Now's A Great Time For A Financial Crisis Plan

For the five years through June 30, U.S. stocks were the No. 1 performing investment of major securities indexes! The S&P 500 index more than doubled in value, despite the pandemic! Remarkably, U.S. stocks were No. 1, not only for this five-year period through June 30, 2021, but for the past five five-year periods ended June 30! And, as the end of the third quarter neared, the S&P 500 kept breaking records.

This is precisely the right time to ask yourself: What could go wrong?

The stock market has been treating American investors to outsized gains year after year, and the party could continue -- the good times could roll for another five years or get even better! As professionals, however, we believe it's wise to plan for a stock market slump, to plan what you would do if things go wrong with your business, your job, or God-forbid, your health.

With the stock market and housing values sharply higher than a year ago, your net worth may be higher than ever, making this precisely the right moment to write a crisis plan. Your worst nightmare may be running out of money when you're older,

Retirement Planning Alert For Current Financial Economic Circumstances

The economy headed toward the final quarter of 2021 is running hot. With all key fundamental drivers of U.S. prosperity strong relative to their historical norms, stock prices breaking record highs month after month, and tax hikes on high-income and high-net-worth individuals expected imminently, here's a retirement planning alert built for current financial economic circumstances.

The Conference Board, an association for large U.S. companies, has measured the U.S. Index of Leading Economic Indicators (LEI) monthly since 1996, and the index is higher than ever since its inception. The U.S. LEI surged again in July, and all of its 10 component indices contributed positively.

"While the Delta variant and/or rising inflation fears could create headwinds for the U.S. economy in the near term, we expect real GDP growth for 2021 to reach 6% year-over-year, before easing to a still robust 4% growth rate for 2022," according to the Conference Board's economics research team.

The LEI is one in a long list of measures indicating strong growth is ahead. In addition, data on the service sector of the economy, manufacturing, retail sales, and housing starts are, all poised for a very strong end to 2021.

Since the March 23rd, 2020, Covid bear market low, the Standard & Poor's 500 stock index gained more than 60%! Inflation uncertainty and the Covid variant could cause a sharp drop in stock prices anytime, but a recession is not threatening.

Financial conditions, as they are currently, make it wise to consider whether the next sharp drop in stock prices would present a strategic tax opportunity to convert traditional IRA or 401(k) assets invested in stocks into tax-free Roth IRAs.

With tax rates expected to be going up, and the stock market breaking records for 11 months, retirement-savers should proactively investigate converting to a Roth IRA in 2021. A Roth IRA conversion gives you a tax-free income stream for life and, when you die, your spouse gets tax free income for life, too. Your children or other non-spouse beneficiaries get tax free income for 10 years and then a tax-free lump sum inheritance after 10 years.

This is an important tip that we cannot emphasize enough but it requires action by the end of 2021. ●

What could go wrong?

RUNNING OUT OF RETIREMENT MONEY

PAYING OFF LARGE DEBT

CARING FOR A FAMILY MEMEBER

Source: Financial Counseling Institute

or who will care for a child with special needs after you're gone. Or perhaps you've been prone to selling stocks after market plunges?

Your worst financial nightmare is based on your experiences and personality characteristics. So everyone has their own very personal reaction to life's risks. Even if your financial future is looking bright at this moment, writing your crisis plan now, rather than in the throes of a crisis, can help ensure you will continue to sleep soundly even if your worst financial nightmare were to come true. That's why now is the right time for financial crisis planning. ●

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2021 Year End Tax Planning

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enacted by the end of 2021. President Biden campaigned on a proposal to raise income taxes on individuals with more than $400,000 of annual income. This makes income-tax planning more important while complicating the right moves to make now, in preparation.

This is a timely warning that year-end tax planning in 2021 will be a cliffhanger. It requires the attention of high-income/high-net worth individuals now. While details of the coming tax hikes are impossible to predict, one thing is certain: planning for the complex matrix of possible changes to the Tax Code, starting right now, would be smart. ●

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