



## PLANNING IDEAS & CARES ACT INFORMATION

Dear Clients and Friends,

We have been inspired by everyone who is working tirelessly to suppress the spread of the global Coronavirus (“COVID-19”) epidemic. We understand that this situation has caused anxiety and stress and we, as a firm, are dedicated to helping you through this epidemic.

During this time of recent market volatility, we have spent the last few weeks communicating with clients and monitoring our investment portfolios for areas of opportunity. Where appropriate, we harvested tax losses in taxable portfolios to offset realized gains for the year. In certain tax scenarios, these losses can also be applied to future years when markets recover in order to offset associated capital gains. As we continue to work with clients to stay focused on their long-term financial goals and construct an investment strategy in accordance with those goals in mind, we are also closely monitoring the daily release of information from the government set in place to help mitigate the financial stress COVID-19 has placed on individuals, families, and communities.

The Coronavirus Aid, Relief, and Economic Security Act (or “CARES Act”), signed into law on March 27, is the largest fiscal stimulus bill ever passed in U.S. history.\* The bill will provide \$2 trillion in aid to individuals, small businesses and entire industries disrupted by the sudden economic impact of COVID-19. This gives our clients many planning opportunities as individuals, and also as members of their community as many are at the helm of businesses and/or are deeply involved in the not-for-profit world.

\*Source: Taxfoundation.org



**While this summary provides a high-level overview of many of the key provisions of the CARES Act, tax law is often complex and nuanced, and the below list is inherently non-exhaustive. We strongly encourage you to initiate a discussion with a qualified tax professional to navigate the expansive impact on your tax situation. Angeles Wealth Management cannot provide tax or legal advice and this letter should not be construed as such.**

The ways in which this Act can potentially impact us in the near-term and also aid in maintaining our long-term goals are vast. Please find some financial planning opportunities that you may want to consider as well as points of financial relief outlined in the Act that may apply to you or someone you know. The IRS website (IRS.gov) is a helpful resource for the most up-to-date communications surrounding the CARES Act.

### Relief for Individuals

- All U.S. individuals with Adjusted Gross Income ("AGI") within specific thresholds are eligible to receive cash payments up to \$1,200 (\$2,400 Married Filing Jointly). The payments are considered refundable income tax credits against 2020 income. The amounts are based on tax filing status from the last tax return filed (2018 or 2019). If you did not qualify based on past year returns, and therefore do not receive a check, but do qualify in 2020, you would receive payment in the form of a tax credit when you file in 2021. The amount is increased by \$500 for each qualifying child (a dependent child under the age of 17).

#### **Applicable AGI thresholds (with phase-out over lower threshold):**

Single: \$75,000 - \$99,000

Head of Household: \$112,500 - \$146,500

Married Filing Jointly: \$150,000 - \$198,000

### Obligations for Renters and Homeowners

- Some clients may find it an opportune time to refinance your residential mortgage as interest rates have declined. Refinancing at a lower interest rate can reduce monthly payments and, in some cases, shorten the repayment term.
- Initiating new mortgages may be beneficial to take advantage of low interest rates. Taking out a mortgage can make additional cash available at a historically low cost of capital. Please note that rates may not be lower for all loan sizes which is why a conversation with your mortgage lender is needed.



- Individuals can benefit from a 120-day suspension on evictions for any renters whose landlords have mortgages backed or owned by Fannie Mae, Freddie Mac, and other federal entities. Landlords also can't charge any fees or penalties for nonpayment of rent during this time.
- The CARES Act allows borrowers who have lost income due to the COVID-19 outbreak to request a payment reprieve up to 12 months for federally backed mortgages. A conversation with your mortgage lender is necessary to understand what options you may have and how those choices may impact you.

## Unemployment

- Self-employed workers - including freelancers and independent contractors - are now eligible for unemployment benefits.
- Part-time workers who lost their jobs and workers who can't get to their new jobs because of the pandemic are also eligible for unemployment benefits.
- Unemployed workers who recently exhausted their benefits are allowed to sign up again.

## Retirement Distributions

- The CARES Act waives 2020 Required Minimum Distributions ("RMDs") for all IRAs (including inherited IRAs) and tax deferred accounts (SEP IRAs, SIMPLE IRAs, 401k, 403b, and Government 457b plans). This will provide a potentially significant tax break as investors can leave tax-deferred money in retirement plans and not pay federal or state tax on the distributions in 2020.
- For taxpayers who turned 70.5 in 2019 and elected to delay their first RMD to April 2020 and who would therefore be subject to two RMDs in 2020 - both RMDs are waived.
- If a full or partial RMD has already been withdrawn within the last 60 days, it can be returned dollar-for-dollar into the tax deferred account and considered a 60-day IRA rollover. A 60-day IRA rollover is allowed 1 time every 12 months. Unfortunately, this is not allowed for inherited IRAs.



- If an RMD was made in 2020 outside the 60-day rollover window, IRA owners who are adversely affected by COVID-19 are eligible to take tax-favored distributions from their IRA up to \$100,000. These coronavirus related distributions can be recontributed into your IRA within three years and the withdrawal and later recontribution is considered a tax-free rollover.
- If your annual expenses are funded by RMDs, consider taking a \$100K lump sum (no withholdings) out of your IRA. You can choose to spread the taxable amount equally over three years.

### Roth IRA Conversions

- It may be an opportune time for a Roth conversion given the market downturn paired with other tax relief provided by the CARES Act. Roth conversions protect future market gains from income taxation, eliminate future RMDs and are a terrific savings tool for future generations. A potential conversion needs to be reviewed in detail with your tax advisor before executing as the recharacterization of a Roth conversion is no longer allowed.

### Student Loans

- Payments for student loans held by the federal government will be automatically suspended until September 30 without penalty to the borrower.
- Interest will not accrue on the loan during the suspension period.

### Small Business

There is a substantial amount of information in the CARES Act related to small businesses and how small business owners can seek financial relief, the Paycheck Protection Program (PPP) and Employee Retention Credit (ERC) being two provisions of note. Please refer to the IRS website and SBA (U.S. Small Business Administration) website to understand what businesses are eligible, when, and how.

- The Paycheck Protection Program addresses the need for employers to keep meeting payroll without having to lay off employees during the COVID-19 crisis. It provides federally guaranteed loans to small businesses and qualifying nonprofit organizations.
  - The loan may be eligible for full debt forgiveness if employees are not laid off and the loan is used appropriately for payroll costs, interest on mortgages, rent, and utilities within the 8 weeks following the origination of the loan.



- Employee Retention Credit sets out to provide cash relief for employers that retain employees during the COVID-19 crisis.
  - Eligible businesses may receive a tax credit worth 50% percent of wages potentially up to a maximum credit of \$5,000 per employee.
  - Delayed payment of payroll taxes may be permitted beginning March 27, 2020 through the remainder of 2020 and ultimately made in equal halves over the following two years.

### Charitable Giving

- For taxpayers that itemize deductions, the Act increases the charitable deduction amount for cash contributions made directly to public charities from 60% to 100% of an individual's AGI. This applies to cash contributions made directly to public charities and does not apply to contributions made to private foundations or Donor Advised Funds. These new limits do not apply to gifts of appreciated stock either.
- For taxpayers who don't itemize their deductions (potentially due to the passing of the 2017 Tax Cut & Jobs Act), the CARES Act allows individuals to take a small above-the-line deduction for charitable cash contributions made directly to qualified charities up to \$300 per taxpayer (\$600 for married couple) for the 2020 tax year.

### Gift and Estate Tax Planning

It may seem implausible to consider wealth transfer opportunities during the spread of COVID-19 as financial markets continue to experience volatility; however, 2020 may prove to be a unique time to leverage tax planning strategies that may well evaporate. As we contemplate the future, we must acknowledge that there may be a scenario where income and wealth taxes increase in order to pay for the CARES Act. Therefore, it may be prudent to establish various strategies noted below to not only lock in today's low interest rates but also take advantage of lower security valuations in the market.



- Gifting
  - We remain in a period of heightened estate tax exemptions (estate tax, gift tax and generation-skipping tax) expected to sunset at the very latest in 2025 but could potentially be modified sooner. Current depreciated asset values create an opportunity to make outright gifts at lower valuations and maximize the current high exemption amounts. The annual gift tax exclusion amount remains at \$15,000 per individual in 2020 and \$30,000 for married couples (considered a gift split).
  
- Intra-family notes
  - An intra-family loan is a low-cost estate-planning technique that allows families to shift wealth from one family member to another without incurring gift tax if structured correctly. Under rules put in place by the IRS, it is possible to make loans to family members at lower rates than those charged by commercial lenders without it being considered a gift. As a result of the recent stimulus and interest rate decreases in response to COVID-19, clients are presented with an opportunity to refinance intra-family loans already in place or initiate new notes at these attractive low rates.
  
- Grantor Retained Annuity Trusts (“GRATs”)
  - GRATs are terrific planning entities in a low interest rate environment coupled with decreased valuations in marketable securities and closely held business interests. A GRAT’s ability to transfer wealth to family members is considered successful when the combined income and appreciation in the assets of the GRAT exceeds the “hurdle rate” over the term of the GRAT. The Federal Reserve’s recent interest rate cuts reduced the hurdle rate for GRATs to 1.2%, per annum (as of April 2020). These low interest rates combined with the belief that securities funding the GRAT will appreciate over the term of the GRAT make this an opportune time to consider these estate planning tools.
  
- Charitable Lead Annuity Trusts (“CLATs”)
  - CLATs work similarly to GRATs and are appealing at a time of low interest rates and depreciated asset values. For people who make significant annual charitable gifts, a CLAT is an excellent opportunity to combine charitable intent with family giving.



- Review of your estate planning documents
  - We always encourage you to review that your estate planning and insurance documents produce an outcome consistent with your goals and objectives. It is important to review your Will, as well as the guardians for minor children, how property is titled, your designated beneficiaries, health-care proxy and durable power of attorney.

*The health and well-being of you and your families are of the utmost importance to us. We appreciate the trust you instill in us to help you navigate through these difficult times. Please do not hesitate to call or email us with questions.*

Sincerely,  
Your Team at Angeles Wealth Management

Angeles Investments is an independent and privately-owned investment advisory firm located in Santa Monica, CA and New York City. Angeles provides investment and wealth management services to institutional clients and families and individuals (e.g., endowments, foundations, pension plans, trusts and private family clients).

For more information please visit our website at:  
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