FIFTH THIRD PRIVATE BANK

How COVID-19 Has—And Will—Impact Your Financial Planning

Since the start of the coronavirus pandemic, there have been a variety of effects on the financial planning environment, both legislatively and in general. The CARES Act, which passed in March, made changes to retirement plan distributions, charitable giving, and some tax practices. And more legislation may come before the end of the year that may further impact opportunities. The situation is still fluid at the time of this publication—make sure to reach out to your advisor for the most up-to-date information. Here's how things stand.

Estate planning

With interest rates at historic lows, there are many opportunities right now for people with significant wealth to pass wealth on to the next generation. For instance, the IRS Applicable Federal Rate for intra-family loans in August 2020 was 0.17% for loans up to three years and 0.41% for loans of more than three years and up to nine years. (For the most recent rates, check with your advisor.)

In this pandemic environment, it's also a good idea to review your estate documents and make sure everything is in order. Are your will and trust documents up to date? Do they still reflect your current wishes? It's a good time for another set of eyes on your paperwork.

Gift and estate tax exemptions are currently at historic highs, but there may be changes to exemption amounts if Democrats sweep the November elections. The federal lifetime exclusion amount sits at $11.58 million per person, which means a married couple can give away up to $23.16 million during their lives or at their death. With business valuations low and exemptions so high, it's a good time to consider transferring wealth to your heirs or other beneficiaries, particularly before any changes happen at the federal level.

Life insurance

The pandemic has brought life insurance top of mind. If you're unsure of your life insurance coverage or whether a temporary or permanent policy would be a wise addition to your portfolio, consult your financial advisor for guidance.

Waived Required Minimum Distributions (RMDs)

The CARES Act allows anyone who was required to take a Required Minimum Distribution (RMD) from a defined-contribution retirement plan—including a 401(k) or 403(b) plan, or an IRA, to skip it this year. If you already took an RMD in 2020, the IRS was allowing individuals to roll those funds back into a retirement account, although the deadline for this move was August 31st at the time of this publication. Details could change, so reach out to your advisor for guidance.

Roth IRA conversions

Because the SECURE Act reduced the use of the Stretch IRA and because account balances have been down in some cases, some clients are considering Roth conversions to move wealth from traditional IRAs to Roth IRAs. This was a better strategy in the spring due to the market pullback when retirement account values were surprised, but there may be an opportunity to use this strategy moving forward. A decrease in a company or sector could affect your portfolio if you're heavily concentrated there. Recommendations will depend on your specific investments. Consult your advisor to determine if this approach would be advantageous for you.

Impact on charitable giving

For those who give to charity but do not itemize, the CARES Act created a temporary above-the-line tax deduction for charitable cash donations of $300 for single taxpayers ($600 for couples). To claim this deduction, you must not itemize on your returns, claiming the standard deduction, which is $12,400 for singles, $18,650 for the head of household and $24,800 for married filing jointly.

If you do itemize, note that there is no cap on deductions taken for annual contributions. You can now deduct charitable cash contributions up to 100% of adjusted gross income, and contributions in excess of that amount can be carried forward for five years. Note that this applies only to cash donations made to a public 501(c)(3) charity, and this does not apply to gifts made to Donor Advised Funds. This change is only for the 2020 tax year and will not be the case moving forward.

A charitable lead annuity trust (CLAT) is a planned gift that delivers a series of payments to a charitable beneficiary over a period of time defined in the trust.

At the end of the term, the remainder is paid to the donor's family. In a low-interest-rate environment, the future remainder interest is valued less, and any additional appreciation passes to heirs free of transfer taxes.

Finally, because of the SECURE Act's reduction of the Stretch IRA, individuals who are charitably inclined might weigh leaving a retirement account to a charitable beneficiary. This allows them not only to make that charitable contribution but to eliminate that amount from their gross estate for state tax purposes.

Deduction for medical expenses
Taxpayers can still deduct medical expenses totaling more than 7.5% of their adjusted gross income, thanks to Congress extending the lower threshold to the 2020 tax year. Although this continuation happened in January, the pandemic might make it more valuable to families with COVID-related medical bills.

Mortgage interest rates
Low-interest rates have made locked rates on lines of credit somewhat less helpful. If you've locked in an interest rate on a home equity line of credit or other credit line, talk to your advisor about whether a locked rate still makes sense. In some cases, it may be better to unlock it and self-amortize.

Many tax strategies are heavily impacted by timing, so make sure to reach out to your financial advisors for advice and guidance.

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