HUGHES FINANCIAL SERVICES, LLC

Taximpact

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Hughes Financial Services, LLC, is an independent Registered Investment Advisor that works closely with individuals and families, helping them to accomplish their unique financial goals and objectives through the allocation of their assets.

We are a fee-based firm that seeks to adhere to the highest fiduciary standards and provide clients with advice that is truly unbiased and has only our clients' best interests in mind.

We offer clients a wealth of comprehensive financial planning expertise in:

- retirement planning
- estate planning
- investment management
- risk management
- tax planning
- education planning

Our advisors hold a variety of professional designations and certifications and are well-versed in a number of financial disciplines. Our combined education and experience allows us to proudly offer you independent financial advice you can trust.

Tax Planning & Tax Risk Management

FILING FOR 2019, PLANNING FOR 2020

Income tax is a large revenue source for the United States government. Although our tax rates have changed many times since the 1860's, the United States uses a "progressive" tax code. A progressive tax code means that people who make more money are taxed at a higher rate than those who make less money. Our progressive tax system works by placing earners through different tax brackets according to how much money they earn. The dollar amounts define your tax brackets with differing tables depending on your filing status (single, married, etc.). These items are important when determining your marginal tax rate.

UNDERSTANDING YOUR MARGINAL TAX RATE

Determining your tax bracket is not as simple as just adding up your total income and checking a tax table. Taxpayers need to calculate their taxable income (which can be sometimes referred to as their "adjusted gross income") and adjust their income for any allowable deductions, adjustments, and exemptions to come up with their final taxable amount.

Once you determine your final taxable income amount, it's critical to know that not all of your income will be taxed at the same rate. For example, if you are married filing jointly with a final taxable income of $95,000, the first $19,400 is taxed at 10% with the remainder at a marginal tax rate of 22%. The key thing to note is that in this example, the last dollar earned is taxed at that 22% tax rate.

At Hughes Financial Services, we strongly believe tax planning should always be an essential focus when reviewing your personal financial situation. This report reviews some of the broader tax law changes along with a wide range of tax reduction strategies.

Our goal as financial advisors is to try to point out as many tax savings opportunities and strategies as possible.

We always recommend addressing any strategy with a tax professional to consider how one strategy may affect another and calculate both state and federal income tax consequences. Tax strategies and ideas that have worked in the past might not work now or even be available under today's tax laws.

As you read along, note each tax strategy you think could be beneficial but keep in mind that not all ideas are appropriate for everyone. Always attempt to understand the details before making any decisions — it's always easier to avoid a problem than it is to solve one!

TAX ALERT: Your state income tax laws could be different from federal income tax laws. To view a wide range of tax info and access links to tax forms for all 50 states, go to www.tax.findlaw.com.

2019 TAX RATES & INCOME BRACKETS

There are seven federal income tax brackets for 2019. The lowest of the seven tax rates is 10%, while the top tax rate is still 37%. The income that falls into each bracket is scheduled to be adjusted each year for inflation. For 2019, see the charts below to see which bracket you fall into.

TAX TIP: ***Not sure how to file? Ask your tax preparer or review IRS Publication 17, Your Federal Income Tax, which is a complete tax resource.*** It contains helpful information such as whether you need to file a tax return and how to choose your filing status.

2019 TAX TABLES: SINGLE FILERS	
Not over $9,700	10% of taxable income
$9,701 – 39,475	$970 + 12% of excess over $9,700
$39,476 – 84,200	$4,543 + 22% of excess over $39,475
$84,201 – 160,725	$14,382 + 24% of excess over $84,200
$160,726 – 204,100	$32,748 + 32% of excess over $160,725
$204,101 – 510,300	$46,628 + 35% of excess over $204,100
$510,301 +	$153,798 + 37% of excess over $510,300

2019 TAX TABLES: MARRIED FILING JOINTLY	
Not over $19,400	10% of taxable income
$19,401 – 78,950	$1,940 + 12% of excess over $19,400
$78,951 – 168,400	$9,086 + 22% of excess over $78,950
$168,401 – 321,450	$28,765 + 24% of excess over $168,400
$321,451 – 408,200	$65,497 + 32% of excess over $321,450
$408,201 – 612,350	$93,257 + 35% of excess over $408,200
$612,351 +	$164,709 + 37% of excess over $612,350

2019 TAX TABLES: MARRIED FILING SEPARATELY	
Not over $9,700	10% of taxable income
$9,701 – 39,475	$970 + 12% of excess over $9,700
$39,476 – 84,200	$4,543 + 22% of excess over $39,475
$84,201 – 160,725	$14,382.50 + 24% of excess over $84,200
$160,726 – 204,100	$32,748.50 + 32% of excess over $160,725
$204,101 – 306,175	$46,628.50 + 35% of excess over $204,100
$306,176 +	$82,354.75 + 37% of excess over $306,175

2019 TAX TABLES: HEAD OF HOUSEHOLD	
Not over $13,850	10% of taxable income
$13,851 – 52,850	$1,385 + 12% of excess over $13,850
$52,851 – 84,200	$6,065 + 22% of excess over $52,850
$84,201 – 160,700	$12,962 + 24% of excess over $84,200
$160,701 – 204,100	$31,322 + 32% of excess over $160,700
$204,101 – 510,300	$45,210 + 35% of excess over $204,100
$510,301 +	$152,380 + 37% of excess over $510,300

CONTRIBUTE TO YOUR RETIREMENT ACCOUNTS

If you haven't already funded your retirement account for 2019, consider doing so by April 15, 2020. This is the deadline for making contributions to a traditional IRA (deductible or not) and Roth IRA.

However, if you have a Keogh or SEP and you get a filing extension to October 15, 2020, you can wait until then to put 2019 contributions into those accounts. To start tax-free compounding as quickly as possible, however, try not to delay in making contributions. Making a deductible contribution will help you lower your tax bill for 2019 and your contributions will compound tax-deferred.

To qualify for the full annual IRA deduction in 2019, you must either: 1) not be eligible to participate in a company retirement plan, or 2) if you are eligible, you must have an adjusted gross income of $64,000 - $74,000 for singles, and from $103,000 - $123,000 for married couples filing jointly. If you are not eligible for a company plan but your spouse is, your traditional IRA contribution is fully deductible if your combined gross income does not exceed $193,000. For 2019, the maximum IRA contribution you can make is $6,000 ($7,000 if you are age 50 or older by the end of the year). For the self-employed, the maximum annual addition to SEPs and Keoghs for 2019 is $56,000.

LIMIT TYPE	2019 LIMIT
Elective deferrals to 401(k), 403(b), 457(b)(2), 457(c)(1)	$19,000
Contributions to defined contribution plans	$56,000
Contributions to SIMPLEs	$13,000
Contributions to traditional IRAs	$6,000
Catch-up contributions to 401(k), 403(b), 457(b)(2), 457(c)(1)	$6,000
Catch-up contributions to SIMPLEs	$3,000
Catch-up contributions to IRAs	$1,000

Although choosing to contribute to a Roth IRA instead of a traditional IRA will not reduce your 2019 tax bill (Roth contributions are not deductible), it could be the better choice because all withdrawals from a Roth can be tax-free in retirement. Withdrawals from a traditional IRA are fully taxable in retirement. To contribute the full $6,000 ($7,000 if you were age 50 or older by the end of 2019) to a Roth IRA, you must earn $122,000 or less a year if you are single or $193,000 if you're married and file a joint return.

If you have any questions on retirement contributions, please call us.

2019 STANDARD DEDUCTION AMOUNTS

Most taxpayers claim the standard deduction. For 2019, the standard deduction has slightly increased. The amounts are now $12,200 for single filers and $24,400 for those filing jointly ($18,350 for head of household filers). If you are filing as a married couple, an additional $1,300 is added to the standard deduction for each person age 65 and older. If you are single and age 65 or older, an additional deduction of $1,650 can be made.

ROTH IRA CONVERSIONS

A Roth IRA conversion is when you convert part or all of your traditional IRA into a Roth IRA. This is a taxable event.

The amount you convert is subject to ordinary income tax. It might also cause your income to increase, thereby subjecting you to the Medicare surtax. However, Roth IRAs grow tax-free and withdrawals are tax-free in the future, a time when tax rates might be higher.

Whether to convert part or all of your traditional IRA to a Roth IRA depends on your situation. It's best to prepare a tax projection and calculate the appropriate amount to convert. Roth IRA conversions are not subject to the pre-age 59½ penalty of 10%.

Many 401(k) plan participants can convert the pre-tax money in their 401(k) plan to a Roth 401(k) plan without leaving the job or reaching age 59½. There are several pros and cons to consider before making this change. Please call us to see if this makes sense for you.

MEDICARE & YOU

3.8% MEDICARE INVESTMENT TAX

This is the seventh year of the net investment income tax of 3.8%, also known as the Medicare surtax. If you earn more than $200,000 as a single or head of household taxpayer, $125,000 as married taxpayers filing separately, or $250,000 as married joint return filers, then this tax applies to either your modified adjusted gross income or net investment income (including interest, dividends, capital gains, rentals, and royalty income), whichever is lower. This 3.8% tax is in addition to capital gains or any other tax you already pay on investment income.

A helpful strategy has been to pay attention to timing, especially if your income fluctuates from year to year or is close to the $200,000 or $250,000 amount. Consider realizing capital gains in years when you are under these limits. The inclusion limits may penalize married couples, so realizing investment gains before you tie the knot may help in some circumstances. This tax makes the use of depreciation, installment sales, and other tax deferment strategies suddenly more attractive.

HEALTH INSURANCE TAX ON WAGES

If you earn more than $200,000 in wages, compensation, and self-employment income ($250,000 if filing jointly, or $125,000 if married and filing separately), the Affordable Care Act also levies a special 0.9% tax on your wages and other earned income. You'll pay this all year long as your employer withholds the additional Medicare Tax from your paycheck. If you're self-employed, be sure to plan for this tax when you calculate your estimated taxes.

If you're employed, there's little you can do to reduce the bite of this tax. Requesting non-cash benefits in lieu of wages won't help — they're included in your taxable income amount. If you're self-employed, you may want to take care in timing income and expenses (especially depreciation) to avoid the limit.

CAPITAL GAINS & LOSSES

With different tax rates for different types of gains and losses in your marketable securities portfolio, it's always a good idea to familiarize yourself with some of the rules.

- Short-term capital losses must first be used to offset short-term capital gains.
- If there are net short-term losses, they can be used to offset net long-term capital gains.
- Long-term capital losses are similarly first applied against long-term capital gains, with any excess applied against short-term capital gains.
- Net long-term capital losses in any rate category are first applied against the highest tax rate long-term capital gains.
- Capital losses that are more than your capital gains can be used to offset up to $3,000 of ordinary income ($1,500 if married filing separately).
- Any remaining unused capital losses can be carried forward and used in the same manner as described above.

TAX TIP: Please remember to look at your 2018 income tax return Schedule D (page 2) to see if you have any capital loss carryover for 2019. This is often overlooked, especially if you are changing tax preparers.

ALWAYS DOUBLE-CHECK YOUR CAPITAL GAINS OR LOSSES. If you sold an asset outside of a qualified account during 2019, you most likely incurred a capital gain or loss. Sales of securities showing the transaction date and sale price are listed on the 1099 generated by the financial institution. However, your 1099 might not show the correct cost basis or realized gain or loss for each sale. You will need to know the full cost basis for each investment sold outside of your qualified accounts, which is usually what you paid for it, but is not always the case.

REQUIRED MINIMUM DISTRIBUTIONS

If you turned age 70½ during 2019, you still have until April 1, 2020, to take out your first Required Minimum Distribution (RMD).

This is a one-time opportunity in case you forgot the first time. The deadline for taking out your RMD in the future will be December 31st of each year. If you do not pay out your RMD by this deadline, you may be subject to a 50% penalty on the amount you were supposed to take out.

five star tip

STARTING IN 2020, THE NEWLY PASSED SECURE ACT CHANGED THE STARTING RMD AGE TO 72. For additional information on this, please see the article on the SECURE Act in this report.

INVESTMENT INCOME

Long-term capital gains are taxed at more favorable rates compared to ordinary income. For qualified dividends, investors will continue to be taxed at 0%, 15% or 20%.

One tax strategy is to review investments that have unrealized long-term capital gains and sell enough of the appreciated investments to generate enough long-term capital gains to push you to the top of your federal income tax bracket. This strategy could be helpful if you are in the 0% capital gains bracket and do not have to pay any federal taxes on this gain. Then, you can buy back your investment on the same day, increasing your cost-basis in those investments. If you sell them in the future, the increased cost-basis will help reduce long-term capital gains. You do not have to wait 30 days before you buy back this investment — the 30-day rule only applies to losses.

Note: this non-taxable capital gain for federal income taxes might not apply to your state.

TAX TIP

Marginal tax rates on long-term capital gains and dividends can be higher than expected due to the 3.8% surtax.

SINGLE FILERS with income ranging from $200,000-434,550 can have an effective rate of 18.8%. Single filers with income above $434,550 can have an effective rate of 23.8%

MARRIED FILING JOINTLY with income ranging from $250,000-488,850 can have effective rate of 18.8%. Married filing jointly with income above $488,850 can have an effective rate of 23.8%.

DON'T OVERLOOK THESE TAX-SAVING STRATEGIES!

☐ **REINVESTED DIVIDENDS**
This isn't a tax deduction but can save investors a lot. Former IRS commissioner Fred Goldberg told *Kiplinger* magazine that missing this tax break costs taxpayers a lot in overpaid taxes.

Mutual fund dividends can be automatically used to buy extra shares. Each reinvestment increases your tax basis in that fund, which in turn will reduce the taxable capital gain (or increases the tax-saving loss) when you redeem shares. **Please keep good records.** Forgetting to include reinvested dividends in your basis can result in double taxation of the dividends — once in the year when they were paid out and immediately reinvested and later, when they're included in the proceeds of the sale.

Don't make that costly mistake. **If you're not sure what your basis is, ask the fund or us for help.** Funds often report to investors the tax basis of shares redeemed during the year. Regulators currently require that for the sale of shares purchased, financial institutions must report the basis to investors and the IRS.

☐ **DON'T FORGET DEDUCTIONS CARRIED OVER FROM PRIOR YEARS** because you exceeded annual limits, such as capital losses, passive losses, charitable contributions and alternative minimum tax credits.

☐ **CHECK YOUR 2018 TAX RETURN** to see if there was a refund from 2018 applied to your 2019 estimated taxes.

☐ **DON'T OVERPAY SOCIAL SECURITY TAXES.** If you received a paycheck from two or more employers and earned more than $132,900 in 2019, you may be able to file a claim on your return for the excess Social Security tax withholding.

☐ **MEDICAL EXPENSE DEDUCTION**
In late December 2019, legislation retroactively made the 7.5% threshold available to taxpayers in 2019 and 2020. The 10% threshold amount was postponed until 2021.

☐ **CHARITABLE GIFTS AND DONATIONS**
When preparing your list of charitable gifts, remember to review your checkbook register and credit card statements, always get a receipt for every gift and keep these in a safe place, and if your donation totals more than $250, you'll also need an acknowledgement from the charity documenting the donation. Remember that you'll have to itemize to claim charitable deductions, but when filing, the expenses incurred while doing charitable work is often not included on tax returns.

TAX TIP: You should also count non-cash donations as well. If you buy supplies for a group, the cost of that material is deductible as an itemized charitable donation. You can also claim a charitable deduction when using your vehicle for charitable purposes, such as delivering meals to the homebound or taking your child's Scout troop on an outing. For 2019, the IRS will let you deduct that travel at .14 cents per mile.

☐ **CHARITABLE GIFT MADE FROM IRA**
Individuals 70½ years of age or older can exclude from their gross income Qualified Charitable Distributions (QCDs) from IRAs of up to $100,000 per year. Remember to double check on what counts as a QCD before using this tax strategy.

☐ **INCREASED CHILD TAX CREDIT**
For 2019, the maximum child tax credit has doubled to $2,000 per qualifying child, of which $1,400 can be claimed for the additional child tax credit. The TCJA also adds a new, non-refundable credit of $500 for dependents other than children. The modified adjusted gross income threshold at which the credit begins to phase out is $200,000 for single filers and $400,000 if married filing jointly.

☐ **CHILD AND DEPENDENT CARE CREDIT**
In addition to claiming the child and dependent care credit to help cover costs of after-school daycare while working, don't overlook claiming childcare costs for summer camps. The key to this deduction is that the camp can only be a day camp, not an overnight camp.

If you paid a daycare center, babysitter, summer camp or other provider to care for a qualifying child under age 13 or a disabled dependent of any age, you may qualify for a tax credit of up to 35% of qualifying expenses of $3,000 for one child or dependent, or up to $6,000 for two or more children.

☐ **STUDENT LOAN INTEREST PAID BY PARENTS**
Generally, interest is deductible only if you are legally required to repay the debt. But if parents pay back a child's student loans, the IRS treats the transactions as if the money were given to the child, who then paid the debt. If the child is no longer claimed as a dependent, he/she can deduct up to $2,500 of student loan interest paid by their parents each year. (Parents can't claim the interest deduction even if they foot the bill because they are not legally liable for the debt.)

☐ **CALCULATE 2020 ESTIMATED TAX PAYMENTS VERY CAREFULLY.** Most computer tax programs automatically assume your income tax liability is the same as the prior year in order to avoid paying penalties for underpayment of estimated income taxes. However, in many cases this is not a correct assumption, especially if 2019 was an unusual income tax year due to the sale of a business, unusual capital gains, exercise of stock options, or even winning Powerball!

☐ **DOUBLE CHECK YOUR MATH** where possible and consult a tax preparer before filing.

☐ **USE IRS.GOV AS AN ONLINE RESOURCE FOR TAX INFORMATION AND DETAILS.**

☐ **QUESTIONS? Please call us – we're here for you!**

THE SECURE ACT

What Changes is the SECURE Act Bringing?

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, passed by the Senate on December 19, 2019, was developed to increase access to retirement plans for all Americans. Most of the Act's provisions went into effect on January 1, 2020 and includes some reforms to Defined Contribution (DC) Plans, Defined Benefit (DB) plans, Investment Retirement Accounts (IRAs) and 529 plans. Throughout the year and as your situation requires, we will help you with updates to your financial plan resulting from the SECURE Act.

Among the many changes in the SECURE Act, we feel there are four major areas that could impact many investor retirement planning strategies and they are:

1. **One of the most impactful provisions of the SECURE Act is the "death" of the Stretch IRA as an estate planning tool for most non-spousal beneficiaries.** When the original owner of an IRA passes away after December 31, 2019, fewer beneficiaries will be able to extend their distributions from the inherited IRA over their lifetime. Instead, many will need to withdraw all assets from the inherited IRA within 10 years following the death of the original account holder. Exceptions to the 10-year distribution requirement include: assets left to a surviving spouse, a minor child, a disabled or chronically ill individual, and beneficiaries who are less than 10 years younger than the decedent. Please note that this new rule will only apply to IRAs inherited after the January 1, 2020 effective date. All existing inherited IRAs are grandfathered in under the old rules. **Due to this change, we will be reviewing the financial plans of all clients who have accumulated retirement assets so we can discuss potential strategies that may be best for their situation.**

2. **Another notable change is the RMD age adjustment from age 70½ to age 72.** The Act states that this change applies to IRA account owners who will attain age 70½ on or after January 1, 2020. Congress updated the RMD rules to reflect changes in American life expectancies since we are currently working and living longer.

3. **Allows anyone with earned income the ability to contribute to an IRA after age 70½.** The SECURE Act permanently removes the age limit at which an individual can contribute to a traditional IRA. Previously, an individual age 70½ or older could only contribute to ROTH IRAs as they have no age limit. Starting in 2020, the SECURE Act allows anyone who is working and has earned income to contribute to a traditional IRA, regardless of age.

4. **Another notable change the SECURE Act brings is to 529 Plans.** These tax-advantaged 529 plans will be allowed to help pay off qualified student loan repayments (up to $10,000 lifetime).

Many provisions of the SECURE Act will be subject to the interpretation of the IRS or other authorities. As always, clients should consider consulting with their personal tax advisor regarding their specific situation.

Determining the most efficient ways to drawdown retirement savings and transfer assets to beneficiaries is always an important decision. Our goal is to remain educated and communicative about any changes that can impact our clients and share potential strategies that can help. We firmly believe in proactive tax planning and will review the SECURE Act for tax planning opportunities throughout the year. If you would like to discuss your retirement plan and withdrawal strategy, please call us. As always, we appreciate the opportunity to assist you in addressing your financial goals.

THE SECURE ACT COULD CHANGE RETIREMENT STRATEGIES!

If you know someone who may need help with their retirement strategy, we would be happy to provide them with a complimentary financial check-up of their unique situation

FINAL THOUGHTS

The filing process of your 2019 taxes will continue to include the new tax rates set forth by the Tax Cuts and Jobs Act (TCJA), enacted in 2018 and currently set to expire after 2025. The rules and laws currently in place do not vary too much from last year's filing process. An essential part of maintaining your overall financial health is trying to keep your tax liability to a minimum. Managing wealth involves careful planning and keeping abreast of any changes that affect investors. We will keep you updated throughout the year on potential tax saving strategies that could be helpful to you. We believe that taking a proactive approach is better than a reactive approach — especially regarding income tax strategies! Remember — if you ever have any questions regarding your investments, please be sure to call us first before making any decisions. We are here to be of service to you and have found that often, there is a simple solution to your question or concern.

PROACTIVE TAX PLANNING STRATEGIES FOR 2020

- **Prepare a 2020 Tax Projection:** Taxpayers already know the 2020 rates and by reviewing their 2019 situation and all 2020 expectations of income, a qualified tax preparer could help you with a tax projection for 2020.

- **New Contribution Limits for Retirement Savings:** For 2020, the contribution limit for employees with 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan increased to $19,500. The limit on annual IRA contributions remains at $6,000 ($7,000 for those 50+). The catch-up contribution limits for those age 50+ remain at $1,000.

- **Roth IRA Conversions:** A Roth IRA conversion can be beneficial in your overall retirement planning. Investments in a Roth IRA potentially grow tax-free and don't have required minimum distributions during the lifetime of the original owner. Also, Roth IRA assets may pass to your heirs tax-free. However, Roth conversions are complex and not right for everyone, so please call us to see if this makes sense for your situation.

2020 TAX BRACKETS: SINGLE FILERS	
10%	$0 – 9,875
12%	$9,876 – 40,125
22%	$40,126 – 85,525
24%	$85,526 – 163,300
32%	$163,301 – 207,350
35%	$207,351 – 518,400
37%	$518,401 +
STANDARD DEDUCTION: $12,400	

2020 TAX BRACKETS: MARRIED FILING JOINTLY	
10%	$0 – 19,750
12%	$19,751 – 80,250
22%	$80,251 – 171,050
24%	$171,051 – 326,600
32%	$326,601 – 414,700
35%	$414,701 – 622,050
37%	$622,051 +
STANDARD DEDUCTION: $24,800	

- **Take Advantage of Annual Exclusion Gifts:** For 2020, the maximum amount of gift tax exemption is $15,000. This means you can give up to that amount to a family member without having to pay a gift tax. Ideas for gifting can include contributing to a working child's (or grandchild's) IRA, or gifting to a 529 plan, which is a tax-sheltered plan for educational expenses.

- **Bunch your Charitable Donations into a Donor Advised Fund (DAF):** Now is the time to explore if it's helpful to your tax situation to deposit cash, appreciated securities or other assets into a Donor Advised Fund and then distribute the money to charities over time. Up to 60% of your adjusted gross income can be deductible if given as donations to typical charities.

- **Look into Health Savings Accounts (HSAs):** In general, to qualify to contribute to a health savings account in 2020, you must have a health insurance policy with a deductible of at least $1,350 for single coverage or $2,700 for family coverage. You can contribute up to $3,550 to an HSA if you have single coverage or up to $7,100 for family coverage in 2020, which is slightly more than the 2019 limits. If you're 55 or older anytime in 2020, you'll be able to contribute an extra $1,000. HSA's can be complex and are not right for everyone, so please call us to explore whether this is a strategy you should use.