



The Mosaic Financial Group LLC

Your Wealth Management Partner

PPP Update For Business Owners

The Paycheck Protection Program Flexibility Act (PPPFA) of 2020 modified terms of forgiveness for loans to businesses under the Paycheck Protection Program (PPP) on June 5, 2020.

Since its enactment into law in late March, PPP has undergone two legislative revisions. Here's a short history a business owner needs to know about PPP:

\$310 billion in PPP aid was authorized by Congress and signed into law by President Trump a month later and it's now being distributed to qualified businesses.

Cleanup. PPPFA cleans up rules and requirements of qualifying PPP loans. For example, the criteria for a loan to be forgiven was softened considerably in two key ways:

Instead of requiring a business

Spotlight On... Molly Yue

Hello, my name is Molly. I am a tax associate at the Mosaic Financial Group, LLC. I was born in Shanghai and after finishing my BA in English

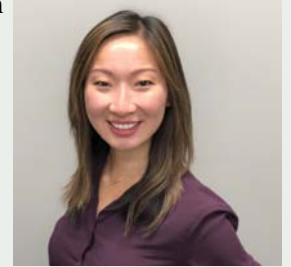
Literature in 2010, I began my journey in the US. I had worked part-time in general accounting

and marketing while I was pursuing master's degrees in Human Resources, Marketing, and Accounting. I believed a cross-functional background would create an interesting skillset, and indeed it does, regardless of how baffled my parents were when I was in grad school for a decade.

I started my internship at Mosaic in 2018 and was hired full-time afterwards. I soon found my passion in taxation, and Mosaic is a great place to fulfill that passion. I am working with a team of outstanding mentors who are hard-working and enthusiastic about their jobs.

While studying at U of I, I met a group of friends whom I proudly call my second family to this day. My American dream is still sprouting, and I am grateful for everything I have.

I am a proud dog mom to a 4-year-old Yorkie and am enjoying the happiness he brings to me every single day!



Business Owner Alert

Round 1. PPP is the principal federal financial aid program for business owners harmed by the epidemic. The program is run through the Small Business Administration and was part of the \$2.2 trillion Coronavirus Aid, Relief & Economic Security Act (CARES Act) enacted March 27, 2020. PPP authorized \$349 billion in aid to businesses, in the form of forgivable loans, but that ran out in less than two weeks.

Round 2. A second tranche of

owner to spend 75% of the loan on employee compensation and only 25% on rent, utilities and other costs specified under federal law, a business owner can spend as little as 60% on compensation and still qualify for loan forgiveness. You must use the loan proceeds for payroll, health insurance, funding an employee retirement plan, and interest on a mortgage, rent, as well as utilities.

Another important easing of the

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Exceptions To The New Rule On Inherited IRAs

Yet another new tax reform law went into effect in 2020 under the SECURE Act. In addition to ultra-high-net-worth individuals, the many millions of mass affluent Americans are likely to be impacted by the 470-page SECURE Act's retirement income tax provisions. The SECURE Act is a sweeping and substantive effort to make retirement income tax more sensible, a rare legislative action to win bipartisan support in Congress and the president's signature.

The new rules force heirs to withdraw everything from an inherited IRA over 10 years. Requiring heirs to deplete an inherited IRA over 10 years is a tax hike. Your IRA beneficiaries are no longer allowed to stretch out withdrawals over their expected lifespan.

Forcing heirs to pay tax on required distributions from an IRA over 10 years may result in your heirs paying additional income taxes annually during the 10-year withdrawal period. However, there are exceptions to the new 10-year rule for certain beneficiaries.

Spouses. Spouses can inherit your IRA with zero tax impact. A

spouse who inherits an IRA is required to make withdrawals based on their actuarial life expectancy, which can be found in a table published by the IRS. Starting in 2020, a spouse who inherits an IRA may defer taking required minimum distributions (RMDs) until age 72 — not age 70½, as under the old law. An extra 18 months of tax deferral is significant. Deferring taxes for 18 months, when your IRA is hitting its peak value, lengthens the period of tax-free compounding just when a pre-retiree needs it. The stock market averaged a 3.9% quarterly return in the six quarters ended December 31st, 2019, despite a -13.5% in the fourth quarter of 2019, and no one can predict stock returns.

Minor Children of an Employee.

Minor children of an employee who

inherit a federally qualified retirement account, such as a 401(k), are exempt from the 10-year distribution rule. As long as the parent was an employee with a company's 401(k) plan, the child is not required to make distributions over 10 years.

Disabled. Disabled individuals who inherit an IRA are not subject to the 10-year required minimum distributions (RMDs) rule. Thus, they are eligible to take required minimum distributions based on more favorable terms.

Chronically Ill. Those suffering from a chronic illness are exempt from the 10-year rule.

Not 10 Years Younger. If an heir is not more than 10 years younger than the owner of the federally qualified plan account, the 10-year distributions rule will not apply.

The new RMD rules in the SECURE Act affect a hodgepodge of situations, reflecting Congress's effort to make tax laws more compassionate and sensible. The specific situations are just one aspect of the SECURE Act's wide-ranging effects. If you're among the exceptions to the 10-year rule, please contact us with your questions. ●

RMDs after Death

Exceptions from the 10-year Rule for certain beneficiaries
("eligible designated beneficiary")

- Surviving Spouse
- The employee's **Children** under the age of majority (*not grandchildren or any other children*)
- Disabled
- Chronically ill
- Individual not more than ten years younger than employee



§§ 401(a)(2)(E)(ii)

How Negative Interest Rates In Germany Limit Pandemic Economic Damage To U.S.

While the coronavirus pandemic has exacted a once-unimaginable toll in human life, its financial cost is cushioned by an unusual confluence of global conditions shielding Americans from a much-worse economic catastrophe.

A country's economic growth is the product of two factors: growth in its labor force and productivity gains. National productivity gains can be altered or enhanced almost immediately by government policy or extraneous factors beyond government control. However, growing the labor force, even if a national policy to have

more children were instituted today, would take 20 years to kick in. That's is the earliest time frame in which children born within the next year will start entering the labor force. To investors, 20 years is an eternity! Thus, a nation's economic growth hinges on an almost permanent axis based on national demographics.

Currently, the working age population in Germany is growing slowly relative to the U.S. This led the German central bank to lower interest rates to stimulate economic activity. Lending rates have been lowered so much that long-term German bonds are priced to trade at yields below zero.

This means that bondholders of German government bonds are paying the government to keep their money!

Because bonds are traded worldwide and Germany is the second-largest supplier of sovereign bonds worldwide, negative rates in Germany have led investors worldwide to buy U.S Treasury bonds instead of lower-yielding German Bunds. That anomaly is causing U.S. long term bonds to rise in price and that in turn has depressed yields on U.S. Treasury debt. As a result, the massive aid packages are costing the U.S. Government next to nothing in terms of interest on the borrowings!

Covid, The Fed & American Exceptionalism

The Coronavirus financial crisis is being compared to the near collapse of the global financial system in 2008 and The Great Depression from 1929 to 1939, but there is one big difference this time: The Fed. The Federal Reserve Bank is using innovative new tools to contain the financial damage of the Coronavirus epidemic.

crises, repeatedly deployed a technique called quantitative easing (QE). QE expanded the Fed's balance sheet to buy back U.S. Government bonds on the open market, thus, lowering long-term interest rates.

Never before had the tactic been used by a central bank in a major economy. It worked, however, and QE was one of the reasons the U.S emerged

Under the \$2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted March 27, 2020, the U.S. Government allocated \$454 billion to Federal Reserve Bank Special Purpose Vehicles that the central bank can leverage 10 to 1, thus enabling it to lend up to \$4.54 trillion to companies in financial distress.



In the financial crisis of 2008, the chairman of the Fed at the time, Ben Bernanke, an academic who had spent decades studying previous financial

successfully from The Great Recession of 2008 and 2009. The Fed's present response to the Coronavirus crisis is literally 10 times more powerful.

That sum is reportedly more than all U.S. commercial and industrial loans outstanding at the end of 2019, plus all the new corporate bonds issued during 2019 combined! Although the expansion of the Fed's power has been criticized as a step toward a centrally planned economy, this government action limits the risk of potentially massive corporate bond defaults and corporate bankruptcies.

The U.S. led the worldwide economic

recovery following the global financial crisis of 2008, in part because of the Fed's innovative approach. And now, this most recent display of Yankee ingenuity -- in the form of the Fed's new tools -- is at play once again in fighting the Coronavirus-induced financial crisis.

In these frightening times, the Fed's new toolset is likely to become a mere footnote in history books that will be written about the pandemic in the decades ahead. Ever since Alexander Hamilton established the first U.S. central bank in 1791 to respond to the financial crisis that followed the Revolutionary War, the uniquely American central bank has enabled the progress of civilization through financial crises. The U.S. Government response to the Coronavirus financial crisis is a shining example of what makes America exceptional among the nations of the world. ●



While this may seem academic, it has real world consequences. Anomalous global economic conditions are supporting greater U.S. Government largesse while adding a negligible amount to the long-term

national debt. Negative interest rates in Germany are making it possible for Uncle Sam to bolster funding for the CARES Act, as well as programs like the Paycheck Protection Program, the Supplemental Nutrition Assistance Program (SNAP) for food stamps, the hike to unemployment

insurance compensation payments and other U.S. Federal Government aid.

Conclusion: The U.S. is benefiting from foreign demographic trends in its fight to limit the pandemic's economic damage. ●



Expect An Outbreak Of Financial Fraud

Predictions of a crash in commercial real estate are rampant, as are forecasts of explosive growth in tech and biotech. Should you believe them?

Every crisis spawns new sales pitches and outright frauds, and the unprecedented nature of the Coronavirus epidemic makes it harder to know what to believe. Here are some facts to keep in mind as financial gurus, Wall Street seers and outright fraudsters bombard shell-shocked investors with predictions of which sectors will prosper most in from the epidemic.

This scattergraph shows the history of the Wall Street strategist sector performance based on their predictions published in Barron's for the past 13 years. If Wall Street strategist predictions had been correct, the black dots would all fall along the red

line or cluster around it. The randomness of the picks shows that Wall Street's predictions of the best sectors are not working.

This data was compiled by economist Fritz Meyer, a strategist at one of the world's largest investment companies for over a decade before going independent in 2009. We periodically share Mr. Meyer's updates to this chart and it's worth repeating amid these surreal times.

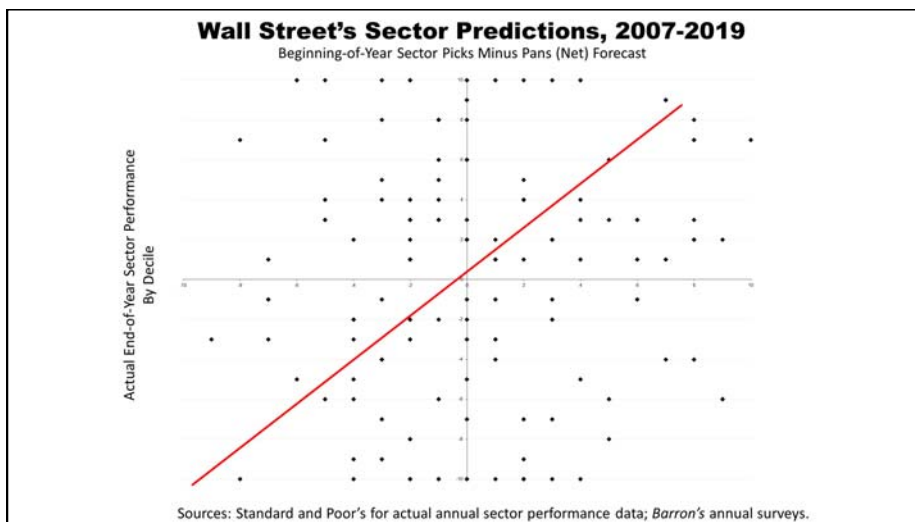
If Wall Street strategists'

predictions had been correct, if Wall Street could predict which industry is doomed and which will prosper the most, then the black dots would all fall along the red line.

The randomness of the picks shows that Wall Street's top strategists' picks and pans, as published in Barron's every year since 2009, were usually way off the mark. Past performance is not indicative of future results, but the Covid 19 epidemic does not suddenly make it easier to predict which industry

sector will be best or worst in 2020.

Instead of trying to predict the future, rebalancing into undervalued sectors is a prudent choice. It's not as exciting as the stories spawned by Coronavirus financial schemes, but it can provide a sensible, low-expense choice for investors over the long run. ●



PPP Update For Business Owners

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loan forgiveness rules were enabled in the new cleanup law: You now have 24 weeks to spend PPP loans, instead of just eight.

PPPFA also fine-tuned how many employees you must retain to qualify for loan forgiveness and spells out more clearly whether you can hire different employees during the 24-week period and still be eligible to qualify for loan forgiveness.

Another enhancement in PPPFA: Loan recipients are able to defer their share of payroll taxes until 2021 when

50% of such taxes must be paid, with the remaining half due in 2022.

With businesses at risk due to the epidemic, PPP is a lifeline to business owners. However, PPP's three legislative iterations have complicated its implementation for business owners, who must certify that the loan is needed under penalty of civil and criminal fraud, while remaining cognizant of rules

for loan forgiveness. It's beyond the scope of this article to offer personal advice or complete details of the series of PPP laws. If you have questions about PPP or how it impacts your long-term personal financial situation, please

contact us.

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The U.S. Government's response to the Coronavirus crisis may implement new regulations and their precise impact may not be available at the time this was written or could be subject to change by U.S. Government agencies, such as the Internal Revenue Service or Small Business Administration. ●

