2Q:2019

The Mosaic Financial Group LLC
Your Wealth Management Partner

Be Prepared For Tax Policy To Swing Back

For business owners, professionals, and wealthy families, tax rules are about as favorable as they've been in decades, but the tax policy pendulum could swing back again. Be prepared to make some important financial decisions much sooner than had been expected.

For example, the lifetime tax exemption for gifts made in 2019 is $11,400,000, up from $11,180, 000 in 2018. It doubled over the $5.43 million in effect in 2017 and is scheduled to ratchet higher through 2025, as a result of the enactment of the Tax Cuts & Jobs Act (TCJA). In 2026, the exemption reverts back to the level in effect before the TCJA became effective in December 2018.

That means families should have many years before they would be forced to decide whether to make gifts in 2025 to maximize their exemptions from tax in passing their wealth to family members. The 2025 peak in the exemption amount forces a decision about whether to give assets to loved ones while you're still alive or hold onto your assets and give them away after you die. In 2025, you use the $12-million-plus exemption or lose it, and the exemption reverts back to a much lower amount in 2026 and beyond.

However, the tax policy pendulum — a politically charged issue — could swing in the other direction in the months ahead. Business owners, professionals, and other high-net worth individuals may need to make decisions about gifting assets much sooner. There is no assurance that you will have until the end of 2025 to make this important strategic decision about passing on your family wealth.

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Spotlight On... Julita Hryniewicki

Hello, my name is Julita Hryniewicki and I recently joined Mosaic as the new Administrative Assistant.

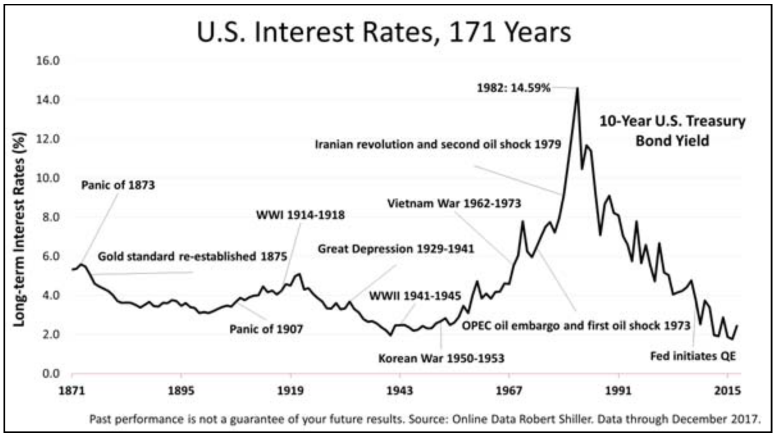
I was born and raised here in Chicago, however, my family is originally from Poland. My parents and two older sisters moved from Bialystok to Chicago in the mid 90's and I was born shortly thereafter!

I graduated from Loyola University Chicago in 2018 with a degree in Communications, more specifically, Public Relations and Advertising. My senior thesis was about advertising towards a Millennial audience and being able to tell the difference between a brand that was pandering and one that truly understood Millennials as a generation. During my time at Loyola, I was also able to dabble in my creative side through graphic design, while my minor in History allowed me to take some rather interesting classes, including History of Witchcraft and Supernatural in the Middle Ages.

On my days off you can find me at a coffee shop during the day working on something for my website, while at night, I'll usually be at a concert or watching the newest standup comedy special on Netflix. Traveling is another love of mine and within the past few years I've been to Barcelona, Ibiza, Boston, Washington D.C., and Orlando. I am currently already planning my next trip!

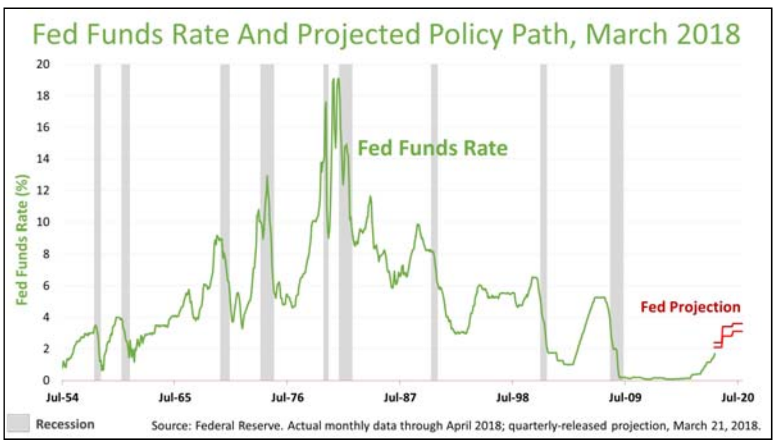
This Is Not Your Parents' Interest Rate Cycle

If you're a pre-retiree, your returns on fixed income investments may be much lower than your parents' portfolio.



If you're over 70, you were invested during four decades marked by strong fixed income returns. From the astronomical highs of the late 1980s, rates climbed down before finally bottoming in 2017, and two generations of retirement investors enjoyed bull market returns in bonds annually for years. The next generation of retirees face an entirely different fixed income investing environment.

The last 50 years were an aberration when viewed from the perspective of the past 171 years. The rise in rates of the 1970s and 80s and the unwinding of that anomaly is behind us now, and history indicates the next decades could be characterized by 10-year U.S. Treasury bond rates of about 4%. That may be the new normal.



Past performance is not a guarantee of your future results, but we are nonetheless grateful to Robert Shiller, an economics professor at Yale University and Nobel Laurate in Economics, for sharing this historical data online. It shows that, over in the long arc of U.S. financial history, nothing like the last 50 years ever happened before the 1970s. If interest rates revert to their long-term mean, a 4% 10-year U.S. Treasury bond is a likely path in the decades ahead.

The yield on a 10-year U.S. Treasury bond, in the grand sweep of history, averaged about 4% annually. That's normal. Mortgage rates of the 70s, 80s, or 90s were abnormal. The new normal may be a 2% inflation rate and a 10-year bond yield of 4%. That's what the Federal Reserve Board of Governors expected in the second quarter of 2018.

The point is, this is not your parents' retirement savings environment. Economic fundamentals are different. If you learned about investing from your parents or invest based on what's worked in the past, the future may not be much like the recent past but instead like the distant past. This is the kind of fundamental analysis you get from a real financial professional. This is the kind of analysis you can expect from us. ●

Opportunity Zone Investment Frenzy Requires Caution

A new provision in the tax law for the first time in 2018 is leading to a frenzy of tax-driven investment products to be promoted to affluent investors, but caution is wise.

Investors can defer paying tax on large capital gains or eliminate gains taxes entirely by investing in one of more than 8,000 places across the country designated under federal law as Opportunity Zones (OZ). The lucrative new tax-driven investments are being promoted by Wall Street firms, which already has prompted warnings in the press about the sudden investment fascination.

With an OZ investment, a reinvested capital gain is tax-deferred, putting an additional 15% or 20% more into your OZ investment. You don't have to pay the gains tax until you sell your interest in the opportunity zone investment. If you stay in the fund for five years, you pay tax on only 90% of your delayed capital gains. Hold for seven years, and you pay tax on 85% of the gains. And if you hold it for 10 years, the appreciation on the OZ investment is tax-free when you exit the fund — assuming the investment has increased in value.

Since January 2018, more than 80 OZ funds have sprung up, even though the Trump administration has not finalized regulations governing them, according to a front-page story in *The New York Times* on February 20th, 2019. "Managers of the funds are seeking to raise huge sums of money by pitching investors on a combination of outsize returns and a feel-good role in fighting poverty."

Some of these OZ areas are more down-and-out than others. Perhaps the most prominent OZ is Long Island City, a waterfront section of the New York borough of Queens. Amazon was set to build a new

U.S. - China Trade War Coverage Distorts Economic Reality

The amount of coverage in the media of the U.S. - China trade war is far out of proportion with the potential impact that China - U.S. trade has on the U.S. economy.

U.S. exports to China comprise just 1% of U.S. GDP. In the $19-trillion-dollar U.S. economy, the 1% of activity with China is inconsequential. However, Chinese exports to the U.S. comprise 4.1% of China's GDP, which means China has much more at stake.

These facts seemed lost from the recent trade war coverage. Unfortunately, the alternate reality in the media misinforms, misleads and confuses investors. It's no conspiracy or bias, and it spans all political biases. Its journalists trying their best to explain the world. But it is a sign of the times, of a world in which the media's power to reach masses outstrips its understanding of our complex world. Consequently, coverage of the trade war with China was a grotesquely distorted reflection of economic and financial facts. It's no wonder so many investors have trouble adhering to a discipline.

Admittedly, there is much we do not know about the inner workings of the economy. Even Janet Yellen, former chair of the U.S. Federal Reserve Bank, the woman who led the U.S. out of The Great Recession into The Great Expansion, admitted live on CSPAN in September 2017 that the low inflation rate was a mystery to her. And, talk about mysteries, how about productivity? Surging in recent months, productivity caused a totally unexpected U.S. growth spike in the first quarter of 2019 and may be more important to U.S. growth than inflation for the rest of 2019 and 2020. And productivity growth is even more perplexing!

As a result, some people think investing is like gambling at a casino, or betting on a horse, and makes many think investing is not connected with facts. That's just untrue! We do know a few things about the economy that are important to investors:

Consumers drive 70% of economic growth in America.

Economic growth drives S&P 500 profits.

Profits drive stock prices.

Stock prices don't always reflect fundamental economic trends, and past performance never guarantees future results. But economic fundamentals are the key determinant of corporate profits over the long-run, and economic fundamentals remained strong through the recent trade war scare. That's why stocks didn't come undone despite the media frenzy over the trade war with China.

While not everything about the economy is understood, facts matter. It's wise to stay focused on economic fundamentals. If you're investing for the long-run, lest you risk being influenced the media sometimes grotesquely distorted reflection of economic facts. ●

headquarters there but backed out after its large tax breaks stirred controversy. Other gentrifying OZs include Oakland, Calif.; East Austin, Texas; and South Norwalk, Conn, but thousands are located in seedy parts of downtowns across the country.


The New York Times

Wall Street, Seeking Big Tax Breaks, Sets Sights on Distressed Main Streets

- Hedge funds and other wealthy investors are plowing money into so-called opportunity zone funds.
- The funds are a creation of the 2017 tax law that provides incentives for spending on projects in poor areas.

The frenzy of activity is reminiscent of tax scams peddled after the enactment of major federal tax reforms in the 1980s and 1990s, which resulted in huge losses for investors and a plethora of class-action lawsuits against Wall Street firms and other promoters.

Oz investing can be expensive, and you must be comfortable with the risk as well the social objectives of a fund before investing, and it requires personal tax planning and investment research from a professional. Please let us know if you have questions about this new type of investment that must be considered cautiously. ●

Give To Charity From An IRA To Lower Your Tax Bill

To keep your tax bill down, if you are over 70½, consider a qualified charitable contribution, which makes donations of up to $100,000 from an Individual Retirement Account (IRA) to a fully deductible charity.

A qualified charitable distribution (QCD) lets you donate from a traditional or inherited IRA, provided you meet the age requirements.

A QCD can help you eliminate, or at least reduce, taxes owed on your required minimum distribution (RMD). That's the amount you are required to take out of your IRA account annually after turning 70½.

Example: Your yearly RMD is $20,000, which counts as taxable income. But if you donate that amount to a charity, it's not counted as income, which may drop you into a lower tax bracket.

Moreover, you don't have to itemize to take this tax deduction. That's good news for Americans no longer itemizing deductions on their returns. To be sure, some taxpayers are hurt by the Tax Cuts and Jobs Act's $10,000 cap on state and local tax deductions, so a qualified charitable distribution can make sense.

You don't have to donate the entire amount to a single charity. You can divvy up a QCD among multiple IRS-eligible charities, within the $100,000 annual limit. You don't have to use 100% of your RMD for the donation, of course, and can keep what you need to pay for your living expenses and donate the rest.

QCDs require careful attention to ensure your donation is made from an individual retirement account — not a 401(k) or 403(b). In addition, you may not make a QCD and also itemize charitable deductions. You must pick one. Plus, the charity must not be a private foundation or a donor-advised fund. These technical details are crucial.

Another QCD tip: Make the contribution straight from your IRA. The RMD money must never be in your personal, non-IRA account. Send your IRA custodian instructions to send the check directly to the charity, with the organization's name on the check. Have the IRA custodian send you documentation that you made the donation.

Finally, be sure to make the donation before you take your RMD. Should you take the RMD first, you can't give the money back to the retirement account and will be ineligible to deduct it.

The QCD is a fairly complex solution to lower taxes and requires the advice of a qualified tax professional. ●

Be Prepared For Tax Policy

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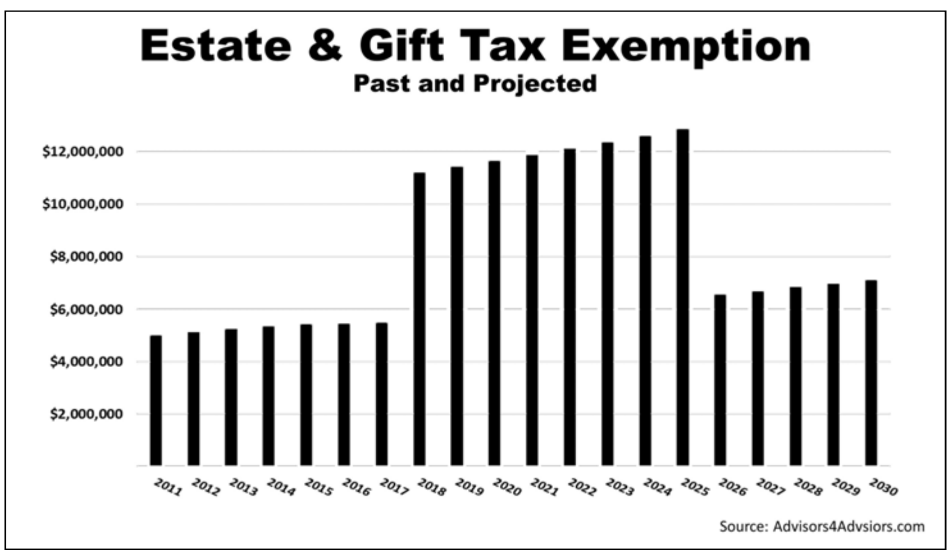
Point is, if tax policy changes, business owners, professionals and individuals benefiting from strategies enabled under the TCJA, may be forced to make decisions about income tax as well as estate and gift tax strategies much sooner than they might have expected. It's not an issue you want to fall behind on and will require personal and professional tax advice.

2025 is supposed to be the date when you use or lose the large estate and gift tax exemption on family wealth transfers. If everything went along as scheduled under the current law, you wouldn't hit that use it or lose it moment until the end of 2025!



However, if tax policy were to shift in 2020 or 2021 — which is a real possibility — then you could be on the precipice of paying millions in estate and gift tax much sooner than expected. ●