The Mosaic Financial Group LLC
Your Wealth Management Partner

Urgent Year-End Tax Planning Moves

With the election of Joseph R. Biden Jr. as the 46th U.S. President, higher federal taxes are almost certain to be enacted in 2021.

Federal emergency aid to individuals and businesses after the Covid outbreak has exploded the federal deficit and now a second aid package is widely expected. The balance-sheet of the United States has been unexpectedly weakened by trillions, which makes tax hikes a financial reality.

The tax hikes will be negotiated in Congress in 2021 and subject to old-fashioned Washington horse-trading. Exactly which taxes will rise, and, by how much, is not known yet. But it's prudent in certain situations, where the tax savings could be substantial, to plan for the tax hikes expected to be enacted in 2021 by taking proactive defense measures before the end of 2020.

Required Minimum Distributions. One situation is if you take required minimum distributions from a retirement account or are about to start taking RMDs; a provision under the federal emergency relief in the CARES Act allows you to defer your RMD in 2020.

With the epidemic keeping retirees at home, your expenses may be very low in 2020. Deferring all or part of your distribution would leave more invested in a tax-advantaged account. This involves investment risk, but tax-free compounding may make the math work, depending your personal circumstances.

Over 59½. Another situation requiring action by the end of 2020 applies to individuals 59½ or over with retirement assets in an IRA. You want to consider converting assets in a traditional IRA or qualified retirement account to a Roth IRA. Making that money tax-free for the rest of your life could benefit you, your surviving spouse and children, too.

With the stock market nosediving more than 7% in a single day several times in 2020, between now and the end of the year you want to consider converting assets in traditional IRAs or retirement accounts the next time stocks plunge. That would reduce the taxes owed on the withdrawal from the traditional IRA, which would then set you up to convert that money to a Roth account. The tax- free compounding may make a big difference in your after-tax outcome and benefit your heirs.

Family Transfers. President-elect Biden's tax plan calls for cutting the estate tax exemption from the current $11.58 million to $3.5 million. This would expand the estate tax to millions of families as of 2021. By the end of 2020, parents and grandparents expected to have taxable estate under Biden's plan should consider selling property – like real estate, securities, or interests in private companies – on an installment-loan basis to children or grandchildren.

With interest rates low, the minimum rate on intrafamily loans is extremely low and structuring transactions to give parents or grandparents annual income from the sale proceeds for many years can be a smart family plan. Moreover, structuring the sale in installments would maximize the lifetime exemption from gift and estate taxes, which can save families on estate taxes.

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Spotlight On... Collin Wegener

Hello, my name is Collin Wegener and I am a consultant with the investment team at the Mosaic Financial Group. I started working at Mosaic in July of 2018.

Prior to starting at Mosaic, I attended the University of Iowa. I graduated with degrees in History and Political Science. I originally became interested in finance after taking courses that analyzed the economic impacts of public policies and world events. I am extremely thankful for this opportunity to learn more about the financial industry from all the impressive professionals here at Mosaic. I truly could not image a better group of people to work alongside as I start my career.

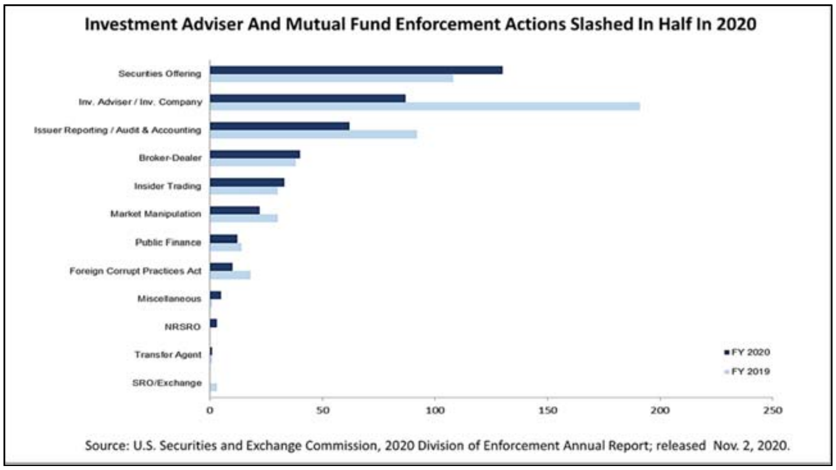
I am originally from Sandwich, a small town on the edge of Chicago's western suburbs. On the weekends, I often like to return there to spend time with my parents and my brothers' growing families. Our favorite activities often include some sort of project around their houses, relaxing with a movie or watching whatever sporting event is on that day – Hopefully, my Iowa Hawkeyes! In truth, a day with the family is always a good time no matter the activity.

SEC Is Struggling Amid Covid Pandemic

Since it's probably not on your reading list, here are highlights investors need to know from the 2020 annual report of the Enforcement Division of the U.S. Securities and Exchange Commission.

Policing Securities During Covid. "By mid-March, the entire Division had transitioned to mandatory telework and essentially all of our operations were conducted remotely," says Stephanie Avakian, director of the division.

An Epidemic Of Fraud. Covid inspired a wave of investment fraud. In March and April alone, the Commission suspended trading in the securities of two dozen issuers where there were questions regarding the accuracy and adequacy of information related to COVID-19 that those issuers injected into the marketplace, including claims about potential COVID-19 treatments, the manufacture and sale of personal protection equipment, and disaster-response capabilities. All told, from mid-March through the end of the fiscal year on Sept. 30, 2020, the Division's Office of Market Intelligence triaged approximately 16,000 tips, complaints, and referrals -- a roughly 71% increase over the same time period last year -- and the Division opened more than 150 COVID-related inquiries and investigations and recommended several COVID-related fraud actions to the Commission.



Source: U.S. Securities and Exchange Commission, 2020 Division of Enforcement Annual Report; released Nov. 2, 2020.

A Decline In Total Actions. Understandably, total enforcement actions declined, during this initial period of the Covid pandemic. A total of 715 enforcement actions were filed in the 12 months ended September 2020. Taking depositions, getting sworn statements, and related legal procedures were moved online, disrupting investigations and prosecutions of securities crimes. Although total enforcement actions declined, stiffer penalties were assessed. "While the number of cases the Commission filed was down as compared to last year, the financial remedies ordered set a new high," according to Ms. Avakian's public letter, accompanying the report.

The Bad News For Financial Consumers. A breakdown of the number and percentage of the types of actions brought in Fiscal Year 2020 is bad news for investors. The agency took enforcement actions against half as many investment advisers and mutual funds as in FY2019. SEC data combines investment advisors serving individuals with companies managing mutual funds. These are two key sources of financial advice and the plunge in enforcement actions when complaints, tips and referrals from other agencies soared by 71%, is cause for concern. If you're saving for a child's college education, your retirement, or for the benefit of your heirs, the sudden plunge in policing by regulators puts a bigger burden on you to be wary of financial sales pitches. It's more important than ever to work with a professional you know you can trust. ●

Starting A Business? Plan To Succeed

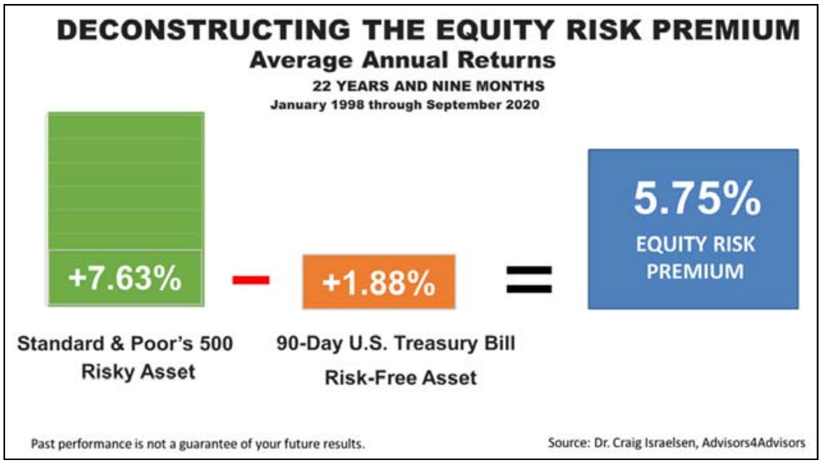
In America's capitalist system, an economic cycle entails destruction of businesses and their replacement with better businesses. It's survival-of-the-fittest, a process in which the ranks of businesses are periodically thinned by recessions.

The Covid recession, early evidence suggests, is leading to a boom in entrepreneurialism. "The pandemic has had all sorts of unexpected consequences, from a boom in sourdough-bread baking to more people listening to nostalgic music on Spotify," according to The Economist on October 10, 2020. "Less noticed is a once-in-a-generation surge in startups."

So here's an important strategic tax tip for anyone who just started a business or who's about to do so: Plan now to transfer your ownership to your family.

To be clear, your new business may succeed! Capitalism is dynamic. which keeps the American dream alive. Businesses that failed in the Covid crisis are going to spawn the launch of

Earning The Equity Risk Premium Return Of 5.75%

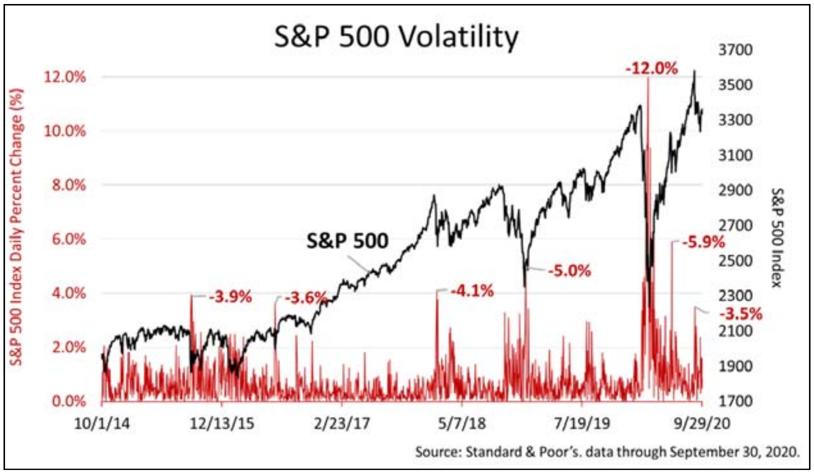


During the Covid pandemic, one day drops in stocks of between -3% and -5% have not been uncommon. And then there was March 12, 2020, a one-day plunge of -12%!

Times of painful stock market losses are when investors earn the equity risk premium. The equity risk premium is financial jargon for "the vig," the extra return investors were paid for taking a risk. Successful investing requires an understanding of the risk premium on stocks. So here's a look at the vig in recent months on the Standard & Poor's 500 index, a period that includes the outbreak of the Covid pandemic in the U.S.

To quantify the post-Covid equity risk premium, look at the equation in the graphic: Over the 22 years and nine months ended on September 30, 2020, the risk-free 90-day U.S. Treasury bill averaged an annual return of +1.88%, compared to a +7.63% annualized return on the S&P 500 stock index.

Subtracting the 1.88% from the 7.63%, resulting +5.75% represents the premium stock investors have been paid annually over the boom and bust cycles since 1998. Put another way, owning stocks through the tech bubble in 2000, financial crisis in 2008-2009, and COVID outbreak bear-market rewarded investors with a premium of 575-basis points over what they would have earned by investing in risk-free 90-day Treasury bills.



This chart does a better job of illustrating the scary parts of the equity risk premium. The red data series shows the daily changes in the stock market, as represented by the price of a share of the S&P 500. Enduring a loss of one-third of your portfolio's value, for some investors, was a stomach-wrenching experience. Sometimes, earning the equity risk premium is hard.

Armed with these kinds of statistics, however, knowing that big daily down days reliably do come, it is easier to withstand the uncertainty.

With the COVID outbreak tragically surpassing 1,000-deaths in a day and the changes in all three branches of the U.S. Government, the risk of a stock market plunge looms larger. However, permanent investors who plan to own stocks for the rest of their lives would be wise to view volatility as a friend.

That may be counterintuitive, but it absolutely is valid. Choosing to expose a portion of your portfolio to price volatility, also known as risk, justifies a better return. You wouldn't earn the six percentage-point equity risk premium on stocks, if you weren't exposed to lots of volatility. It just goes with the territory. It's part of owning a risk asset. ●

new businesses that will succeed and ride the wave of growth in the next economic cycle. If you plan to succeed, and, if your business does indeed boom in the new expansion cycle, it is wise to plan now to transfer assets to your children, charities, and what's important to you. You can set up your company tax-efficiently right now to minimize taxes many years from now for your heirs.

Under President Biden, the amount exempt from estate tax is expected to change from $11.58 million to $5.75 million, or lower. By forming the company and managing the selection of shareholders with this in mind from the time of initial formation of your company, you will have more control over the tax-efficient transfer of your business.

The U.S. debt has skyrocketed due to the Covid crisis and estate taxes are expected to head higher in the years ahead. Planning now for the success of a new business by minimizing taxes on its transfer to the next generation could result in considerable tax savings, under a Biden Administration.

In the excitement of starting a new venture, it is rare to plan an exit strategy. However, the entrepreneurial eruption currently under way, in combination with the expected expansion of the estate tax to millions of more families, may make a little planning today an extremely shrewd tax saving tactic years from now. ●

Confronting Mortality's Details

The Covid pandemic is causing families unimaginable suffering, worry, and grief. It is forcing many individuals to confront mortality, to consider, in very real terms, perhaps for the first time, what will happen when their life comes to an end. Here, in less than 300 words, are key facts about documents that govern what happens to you at the end of your life.

A health care proxy and living will name someone to make medical decisions if you're unable to express your wishes and contain instructions about end-of-life care. This is understandably top-of-mind for a lot of people now.

A durable power of attorney (POA) permits someone else to manage financial and other matters while you're alive. The POA empowers someone you appoint to pay bills, write checks, or sell and purchase assets on your behalf should you become incapacitated.

Your last will and testament provides the details which take effect at your death for distributing your property. It should be reviewed annually so that the trustee, executor, and guardians of minor children you have appointed still conform to your current wishes. It's best to speak with whomever you're appointing about your wishes so that they're aware of your intentions.

A revocable trust can also provide for the disposition of your property after you die while avoiding the probate court process. Because courts across the country were shuttered for a time, they must now deal with a surge in filings due to the pandemic. In times like these, it's advantageous to have a revocable trust to avoid probate court delays. Setting up a revocable trust requires changing the titling of bank and brokerage accounts, real estate, and other assets, and may require signing documents with a witness or notary present, which is now complicated due to social distancing. Fortunately, remote signings can be properly executed via online meeting such as Zoom.

Finally, and most importantly, you will want to be certain that the beneficiary designations on both your retirement plans and your life insurance policies are up to date, as circumstances change over time. As a financial advisor, creating legal documents is beyond the scope of our work, but we can refer you to experienced professionals who can create these documents so they can be properly integrated into a comprehensive financial planning strategy. ●

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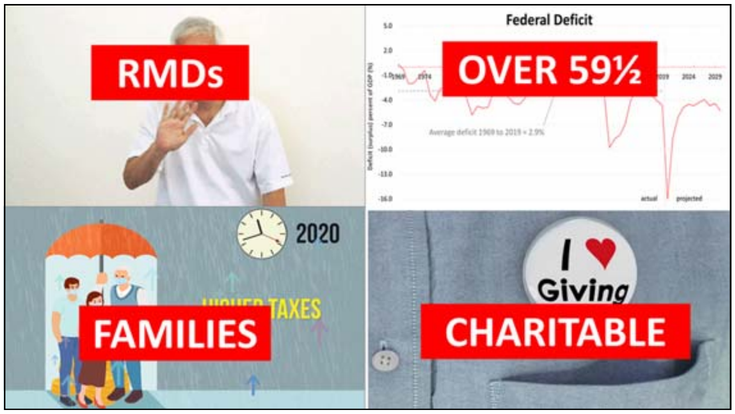
Charitable Donations. An unusual variety of opportunities are available if you are charitably inclined. Under the CARES Act, those age 59½ and older you can deduct up to $100,000 withdrawn from an IRA if you give it to charity, lowering your taxable income dollar for dollar.

If you're a pre-retired doctor or dentist, bunching your deductions for charitable donations can be especially beneficial to you as well as the cause you want to support – again, but only if you take care of the details by the end of this year.



Another charitable-giving tip: In 2021, the Biden tax plan would hike the top tax rate to 39.6% and the favorable capital gains rates of 2020 could be history. If you are sitting on a large capital gain or have a single stock or asset in which your wealth is concentrated, then a charitable donation of that property may be wise before the end of 2020.

Similarly, if you are about to retire and have most of your retirement portfolio invested in a single company, you may want to consider setting up a charitable trust to sidestep the capital gain tax while assuring a stream of income for yourself and your spouse and leave a remainder amount to a cause you're passionate about.

With a slimmer majority of Democrats in the House of Representatives and control of the Senate undecided until after runoff elections in Georgia on January 5, 2021, we'll keep you posted on developments. ●