Consider This Program

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On This Show:

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Show Notes:

Topics Include:

- Working From Home with Jamie Burton
- Upgrading Your Budget
- Tax Planning in Volatile Times
- Gifting Assets Amidst the Current Recession

Working From Home with Jamie Burton

Since you are a working mom, Jamie, with young kids, how's the quarantine working out for you? Oh, it's been very interesting. I used to be a single mom. I'm not anymore. With these quarantine times, it kind of seems like I am again. With Chad working and I'm home with both girls at one time, trying to juggle working from home and my daughter's e-learning schedule, making sure that all gets done, making sure Hazel still gets her naps and gets fed. Trying to coordinate all of that at once - it's really an interesting time.

With schools and daycares being closed, are you having to scale back on hours? Are you just getting creative and finding time to work? I'm getting creative. Jaylen's 10, so she's really helpful with the baby and Hazel has a pretty good nap time schedule going right now. I know that when I'm scheduling meetings with my families, either through Zoom or through a phone call, I make sure to schedule those when she's going to be napping. Jaylen's a really big help with keeping Hazel entertained. In normal circumstances, grandparents or relatives could come help. With social distancing, it's pretty limited on who can help.

You mentioned that you're doing Zoom meetings with our families. Have they all been understanding of this situation? Everyone's been really understanding. They wouldn't want to want to come into the office right now anyway. The fact that we have that option available to them has been a really great thing. The only thing that's been a problem is people not ever using Zoom before. Sometimes we've had to walk them through that.

What comes next? We are waiting to see how this all unfolds. What we've seen from this is that people working from home are not spending so many hours a day in the car and saving money on gas. I'm more productive during the day; I can get more things done. People are finding a lot of efficiency in working from home. We might not know exactly what it's going to look like, but it's definitely going to be different than what we started out with before this quarantine.

I just pulled up an article to see what some of the pros and cons were. It mentioned technology allowing us to stay connected. It can also lessen some of the guilt from working outside of the home. Do you sometimes feel guilty when you're leaving home to go work outside? Yeah and I think it's not just work, it's with everything. It's the whole life balance.

Upgrading Your Budget

What's going to change with our budgets now that we're in this? I always look for an upgrade. There are things you can upgrade. There's things that you can't. My two biggest upgrades that I help people with as a financial planner are upgrading their portfolio and upgrading their budget.

What I was taught as an academic is that you need about 70% of your income to retire. I have found that the majority of families that we take care of are anything but average. You're on a unique journey. When you go to separate yourself from the workforce, you need 100% of your standard of living. There's two ways to upgrade your budget. One is to begin to reduce things. Today I tend to tell people that you can give up chocolate to lose 40 pounds. You can not lose 40 pounds and then give up chocolate. That leads to anger management. People will have this notion that I can retire and then I'm not going to golf, have good wine, go to expensive restaurants, join the club or buy a new car. That won't work. Don't do it. What you need to know is what your budget is when you go to retire. You can give up things today while you're still working to achieve a goal, so that you can maintain it once you've reached that goal. That's one.

The second thing is that you can always make more money. Anytime you have an addition to your income, a bonus or a raise, make sure that you're increasing the percentage that you're saving as opposed to increasing the percentage of your budget.

Tax Planning in Volatile Times

Volatility exists everywhere, but volatility also exists in your income tax return. Tax deadlines have been extended with the CARES Act, but what else will impact our taxes? A lot of people are going to have income variability. I've done videos on how your tax return works, but the best way to think about it is as a series of stairsteps. There are going to be people whose income is really down this year because of the Coronavirus.

They may normally be in a 22% tax bracket or higher, yet in the past they've saved money. They put it in a 401k or an IRA. Part of the CARES Act allows you to take up to $100,000. Assuming you've invested that between IRAs and 401k’s, you can take out that $100,000 and pay the taxes on it over three years. You don't have to wait three years. You could do it this year. Let's say your income has gone from a reasonable sum to zero, you fully expect next year you're going to be back to being at the 22% or 25%, why not take that $100,000 out and pay the taxes at 12%, in a year where your income was down.

Since we're talking about volatility, with the drop in the market, should we be paying attention to losses in a portfolio? One of the things that we do for the families we serve is what's called harvesting losses. Understand that that doesn't work in an IRA. It didn't work in a 401k. Upgrading your investments in an IRA and a 401k definitely does. It all comes taxed at your marginal rate as ordinary income when you go to retire. There's an exception in a 401k, but very few people use it. Where losses matter is inside of your retail accounts.

What should we be focusing on with our contributions to our qualified plans? If you have the ability to still put them in, I think you're probably buying low. That doesn't mean it can't go lower from here. But I still think that if you're able to pick the companies that you're in, you're doing okay. I would always prefer you be in exchange traded funds and individual stocks as opposed to being in mutual funds in a 401k.

Gifting Assets Amidst the Current Recession

Is it a favorable time for gifting assets right now? It depends on what you are trying to accomplish. Depreciated values is what I'm thinking of as the gift, knowing that it's probably going to go back up. We hope at least. This is not a promissory show. We cannot guarantee future results. If I thought the value of my business was worth $100,000 but today I thought it was worth $80,000 because of uncertainty and I was going to make a gift to my kids and I expected them to keep the stock in the company, it is an ideal time.

Is it an ideal time for me to give stock to my kids that I expect them to sell? Let's say I give Angie my green masters cup from 2018 that my friend Randy had me go to and I paid $100 for it. That's what's known as my basis. We're not talking about IRAs, we're not talking about 401ks. I paid $100 for this cup. Because there's no masters until November, people are willing to pay me $1,000 for that cup. If I sold that cup, I have a $900 long term capital gain. I've owned it for more than a year. That was 2018; we're now in 2020. I've got a $900 long term capital gain at my tax rate. That's 20% tax. Capital gains are considered a preferential item. If I die and I leave Angie this cup, Angie could sell the cup for $1,000. She'd get a step up in basis. A step up in basis means you pay no taxes at all.

Should I give you this cup today? If I give it to you today, your basis is my basis, meaning your basis is $100. Now you've got the cup and you're not going to sell it, so this becomes very interesting. This is something people miss all the time. If you were in the 12% tax bracket or below, there is no such thing as a long term capital gain.

Let's say that that cup was worth a thousand dollars and people are very remiss to sell when things are down. People who have assets won't sell because of their ego. You'd be better off to pay the taxes. This cup's down to $500. I still have $100 basis. If I sell it, I still have $400 of long term capital gain or $80 worth of federal taxes that are due on top of that, but you're struggling now.

I think this cup could go down further because the masters did get rescheduled to November. Once we get there and they make another million of these cups to be able to hand out this year, it's probably not going to be worth $500. It was worth $500 when they canceled the masters. It dropped from $1,000 to $500. I give Angie the cup. Angie's basis is now $100 because I gave it to her during life. She sells it. Including the amount of money that she got from it, she's in the 12% tax bracket. She pays zero in capital gains as opposed to me paying $80 in capital gains. From a family dynamic, which is better, it's Angie at zero or me at 80, because we're talking about outflow, not inflow. When you talk about this from a legacy standpoint, if it's about gifting assets that you believe will go down or you need to give income to people, this is an ideal time to give.