Volume 38, No. 3

Success InSight®

Fall 2020

Dealing with Debt

Q: I owe more than I can pay. What are my options?

A: There are many companies that offer to help but most will charge you for things you can do yourself. Start with self-help. You need a realistic assessment of how much money you take in and how much money you spend.

1. List your income from all sources
2. List your secured debt payments. These are things you would lose if you don't pay and include fixed expenses like mortgage payments or rent, car payments.
3. List the expenses that vary — like groceries, entertainment, and clothing
4. List unsecured debt payments like credit cards

The goal is to identify necessities and eliminate any extras to make sure you can meet the basics: housing, food, health care, insurance, and education. Then determine what you have left for unsecured debt payments. If there isn't enough left to pay the minimum due, you will need to negotiate lower payments based on what you can afford.

Next, contact your creditors. Tell them you are experiencing a hardship and how long you expect it to last. Ask them to work out a payment plan that reduces your payments to what you can afford.

Q: I get letters every week from companies promising to settle my debt. Is this an easier option

A: Debt settlement programs are offered by for-profit companies. The way it works is you stop paying your creditors for several months and pay money to the debt settlement company instead. After several months, the company will try to get your creditors to settle your debt for some smaller amount.

If your creditors agree, you will make that debt payment along with a sizable fee to the settlement company. You may end up paying less but your credit will be damaged, and you may owe tax on the amount of debt forgiven.

You could probably eliminate the fees to the settlement company and accomplish the same results yourself. If you stop paying your bills, the creditor will eventually contact you or you can contact them to negotiate a settlement. Either way you go, keep in mind, your creditors are not required to settle your debt, and they may choose instead to take you to court or turn matters over to a collection agency.

Q: Is a debt management plan the same as debt settlement?

A: No. A debt management plan (DMP) is usually offered by a credit counseling agency. The counselor will help you set up a budget and contact your creditors for you to negotiate payments you can afford. You deposit money each month with the credit counseling organization and they use that to pay your unsecured debts according to a payment schedule the counselor develops with you and your creditors. You usually must agree not to apply for or use any additional credit while you are participating in the plan. Again, your creditors are not required to cooperate, and your credit may be affected. Before you sign up, complete the self-help list above to see if your creditors

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Dealing with Debt

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offer the concessions that a credit counseling organization describes to you.

Q: What are the tax consequences of settling debt?

A: Depending on your financial condition, any savings you get from debt relief services can be considered income and taxable. Credit card companies and others may report settled debt to the IRS, which the IRS considers income, unless you are eligible for the insolvency rule. Insolvency is when your total debts are more than the fair market value of your total assets. Fill out the worksheet for IRS form 982 to see if this applies for you.

Q: There are so many offers to settle my debt and fix my credit and the ads are so convincing. Are there any warning signs to look for?

A: There are red flags:

- Companies that charge fees before they settle your debt or begin your DMP plan
- Pressure you to make "voluntary contributions"
- Advertises a "new government program" to settle your debt
- Guarantees to eliminate debt
- Tells you to ignore your creditors without explaining the consequences
- Say they can stop all debt collection calls and lawsuits
- Guarantees they can settle all your debt for pennies on the dollar
- Will not send you free information about their services it provides unless you provide personal financial information like your credit card account numbers
- Tries to enroll you in a debt relief program without a comprehensive review of your finances
- Offers to enroll you in a DMP without teaching you budgeting and money management skills
- Demands that you make payments into a DMP before your creditors have agreed to the program

Q: Is debt consolidation a good solution?

A: You may be able to lower your cost of credit by consolidating your debt through a second mortgage, cash out refinance or a home equity line of credit. On the plus side, these loans may also provide a tax deduction. On the downside, these loans may come with high closing costs and they will also require you to put your home as collateral. As a rule, it is not a good idea to switch unsecured debt for secured debt. If you cannot pay your credit card bills, your credit will be damaged and in the worst-case scenario, you may get a judgment against you or your wages could be garnished. However, if you cannot make your mortgage or home equity payment you could lose your home.

Q: I have exhausted my other options and I am considering bankruptcy. What are the different options?

A: Bankruptcy is a legal procedure that offers a fresh start for people who can't satisfy their debts. However, bankruptcy information stays on a credit report for 10 years and can make it difficult to get credit, buy a home, get life insurance, or sometimes get a job.

There are two main types of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal bankruptcy court. Filing fees are several hundred dollars.

Chapter 13 allows people with a steady income to keep property, like a mortgaged house or a car, that they might otherwise lose through the bankruptcy process. The court approves a repayment plan that allows you to use your future income to pay off your debts during three to five years, rather than surrender any property. After you make all the payments under the plan, you receive a discharge of your debts.

Chapter 7 is known as straight bankruptcy; it involves liquidating all assets that are not exempt. Exempt property may include automobiles, work-related tools, and basic household furnishings. Some of your property may be sold by a court-appointed official, called a trustee, or turned over to your creditors.

There are two main types of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal bankruptcy court.

Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments and utility shut offs, as well as debt collection activities. Both also provide exemptions that let you keep certain assets, although exemption amounts vary by state. Personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. And, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or security lien on it.

You must get credit counseling from a government-approved organization within six months before. If you're thinking about filing for bankruptcy, be aware that bankruptcy laws require that you get credit counseling from a government-approved organization within six months before you file for bankruptcy relief. You can find a state-by-state list of government-approved organizations at www.usdoj.gov/ust, the website of the U.S. Trustee Program.

Economic Outlook

–By Russ Colbert

The election at this time has not been certified, and court battles will continue for at least a month or two until it looks as if a conclusion is near. It appears the pollsters got it wrong again. We also found that American voters do not want a shift in economic policy. President elect Biden has declared victory based on media statistical evidence, but states have not certified the results at this time. President Trump is pushing back with many cases to the courts, and a number of recounts in some states because of the closeness in the results. The odds seem to favor Joe Biden for the next four years.

It looks to me that Joe Biden would be working with a Congress that is much different than the one the pollsters expected. It appears after Alaska and North Carolina report that the Republicans will have 50 seats in the Senate. In January there will be the runoff for two more Senate seats, and it looks as though the Republicans will win at least one seat giving them 51 seats and Senate control.

Looking at the House of Representatives so far it appears the Democrats may have lost around 10 seats at this time. We expect the Democrats to come in around 224 and the Republicans about 211.These losses may cause the moderate democrats to push back against the more progressive members. The pushback may stick because Republicans around the country in the House and Senate races won by strong margins and lost by small margins. They also won many state races increasing their power. I believe this increase for the Republicans will make it much harder for any new policy changes such as passing a major tax hike, Medicare for all, court packing, and the Green New Deal. It is true a Biden administration will create more regulations, but all the new federal courts and Trump appointments will try to make sure all departments and agencies stick to their legal mandates passed by Congress.

We are expecting Congress to pass a stimulus bill that will not bail out states. It should be focusing on unemployed workers, small business, and distribution of the vaccine. Looking into next year we should expect some sort of infrastructure package passed by both Republicans and Democrats. There might be an increase in the limits on itemized deductions on state and local taxes. This would be considered a tax cut. The trade wars will most likely be over. It will be difficult for a new White House to go easy on China or on reversing the progress on peace made in the Middle East. But we will wait and see how it develops.

The economy continues to keep growing and business performance continues to get better. The latest GDP figure for the 3rd quarter was outstanding. The revenues are better than expected and companies have adapted to the challenging times. Unemployment figures that were over 20% during the first half of this year have dropped below 7%. Now with a vaccine and more good news coming on the treatments of Covid-19 we should continue to see improvement in this area. We believe Fiscal policy should not change in a major way, and with continued low interest rates and entrepreneurial power of our economy, the stock market should continue to grow. Again, I think if the Republicans hold the Senate and the gains made for them in the House of Representatives should be more favorable for the stock market.

If you have any questions or need a portfolio review to keep you on track with your investments or retirement plan, please call me.

Russ Colbert
Senior Portfolio Manager
1-888-878-0001

Advisory services offered through Royal Palm Investment Advisors, Inc., a Registered Investment Advisor.

2020 YEAR END

Tax Planning Strategies

Don't Miss Out. Implementing these strategies before the end of the year could save you money.

Do a quick analysis of your income and deductions for 2020 to see if accelerating income or deductions will benefit you more this year than next. Accelerating income in 2020 has several advantages. First, the Tax Cuts and Jobs Act reduced the maximum individual tax rate from 39.6% to 37%. Second, many taxpayers will be in a lower tax bracket this year from losses incurred in this economic downturn.

Review your investments. The tax-loss harvesting strategy helps you minimize what you pay in capital gains taxes by offsetting the amount you have to claim as income. Basically, you "harvest" investments to sell at a loss, then use that loss to lower or even eliminate the taxes you have to pay on gains you made during the year.

If you anticipate an increase in taxable income this year, in 2020, and are expecting a bonus a year-end, try to get it before December 31.

If you anticipate an increase in taxable income this year, in 2020, and are expecting a bonus at year-end, try to get it before December 31.

Bunching charitable deductions every other year is also a good strategy if it enables you to get over the higher standard deduction threshold. Under the CARES Act, eligible individuals may take an above-the-line deduction of up to $300 ($600 married, filing jointly) for charitable contributions made to qualified organizations. You can claim the deduction even if you do not itemize. Property can also be donated as well as charity-related travel expenses and some out-of-pocket expenses. If you itemize you can also to deduct cash donations to public charities in amounts of up to 100 percent of adjusted gross income (AGI).

Taxpayers age 70 1/2 and older can reduce income tax owed on required minimum distributions (RMDs) - a maximum of $100,000 or $200,000 for married couples - from IRA accounts by donating them to a charitable organization instead.

Medical expenses are deductible only to the extent they exceed 7.5 percent of your adjusted gross income (AGI), therefore, it may be to your advantage to bunch these expenses by paying medical bills in whichever year they would do you the most tax good.

If your company grants stock options, then you may want to exercise the option or sell stock acquired by exercising an option this year if you think your tax bracket will be higher in 2020.

If you're self-employed and want to accelerate income, send invoices or bills to clients or customers this year to be paid in full by the end of December; however, make sure you keep an eye on estimated tax requirements. Conversely, if you anticipate a lower income next year, consider deferring sending invoices to next year.

In cases where tax benefits are phased out over a certain adjusted gross income (AGI) amount, a strategy of accelerating income and deductions might allow you to claim larger deductions, credits, and other tax breaks for 2020, depending on your situation. Roth IRA contributions, child tax credits, higher education tax credits, and deductions for student loan interest are examples of these types of tax benefits.

Pay close attention to "one-time" income spikes such as those associated with Roth conversions, sale of a home or any other large asset if your earnings are close to threshold amounts that make you liable for the Net Investment Income Tax ($200,000 for single filers and $250,000 for married filing jointly). The NIIT is a 3.8 percent tax that is applied to investment income such as long-term capital gains for earners above a certain threshold amount. Short-term capital gains are subject to ordinary income tax rates as well as the NIIT. If your income exceeds these threshold amounts, you are also liable for an additional Medicare tax of 0.9 percent.

High net worth individuals should consider contributing to Roth IRAs and 401(k) because distributions are not subject to the Medicare Tax. Also, if you're close to the threshold for the Medicare Tax, it might make sense to switch Roth retirement contributions to a traditional IRA plan, thereby avoiding the NIIT as well.

It could be to your benefit to pay an estimated state tax installment in December instead of at the January due date or paying your entire property tax bill, including installments due in 2021, by year-end.

You may want to pay 2021 tuition and qualified expenses in 2020 to take full advantage of the American Opportunity Tax Credit, an above-the-line tax credit worth up to $2,500 per student. Forty percent of the credit (up to $1,000) is refundable, which means you can get it even if you owe no tax.

529 Education Plans. Maximize contributions to 529 plans, which can now be used for elementary and secondary school tuition as well as college or vocational school.

The alternative minimum tax (AMT) applies to high-income taxpayers that take advantage of deductions and credits to reduce their taxable income. The AMT ensures that those taxpayers pay at least a minimum amount of tax. The exemption amounts increased significantly under the TCIA, and the AMT is not expected to affect as many taxpayers. Also, in 2020 the phaseout threshold increased to $518,400 ($1,036,800 for married filing jointly). AMT exemption amounts are $72,900 for single and head of household filers, $113,400 for married people filing jointly and for qualifying widows or widowers and $56,700 for married people filing separately.

The federal gift and estate tax exemption is $11.58 million for 2020 and the maximum estate tax rate is set at 40 percent. Gifts to a donee are exempt from the gift tax for amounts up to $15,000 a year per donee in 2020 and remain the same for 2021. Husband-wife joint gift maximum is $30,000 ($15,000 each).

The Kiddie Tax rule is unearned income exceeding $2,200 is taxed at the rates paid by trusts and estates instead of the parent's tax rate. For ordinary income (amounts over $12,950), the maximum rate is 37 percent. For long-term capital gains and qualified dividends, the maximum rate is 20 percent. Exception. If the child is under age 19 or under age 24 and a full-time student and both the parent and child meet certain qualifications, then the parent can include the child's income on the parent's tax return.

Converting to a Roth IRA from a traditional IRA in 2020 would make sense if you've experienced a loss of income (lowering your tax bracket) or your retirement accounts have decreased in value.

If you own an incorporated or unincorporated business, consider setting up a retirement plan if you have not already. It doesn't need to be funded until April 15, 2021 but contributions will still be deductible on your 2020 return.

If you are an employee and your employer has a 401(k), contribute the maximum amount ($19,500 for 2020), plus an additional catch-up contribution of $6,500 if age 50 or over, assuming the plan allows this, and income restrictions don't apply.

If you are employed or self-employed with no retirement plan, you can make a deductible contribution of up to $6,000 a year to a traditional IRA (deduction is sometimes allowed even if you have a plan). Further, there is also an additional catch-up contribution of $1,000 if age 50 or over.

Consider setting up a health savings account (HSA). You can deduct contributions to the account, investment earnings are tax-deferred until withdrawn, and any amounts you withdraw are tax-free when used to pay medical bills. To be eligible, you must have a high-deductible health plan (HDHP), and you must not be enrolled in Medicare. For 2020, to qualify for the HSA, your minimum deductible in your HDHP must be at least $1,400 for self-only coverage or $2,800 for family coverage.

Strategies for Business Owners

Businesses can immediately deduct 100% of the cost of eligible property placed in service after September 27, 2017, and before January 1, 2023.

The Section 179 deduction allows businesses to deduct immediately the entire cost of most new equipment up to a maximum of $1.04 million of the first $2.59 million of property placed in service by December 31, 2020. However, the Section 179 deduction cannot exceed net taxable business income. The deduction is phased out dollar for dollar on amounts exceeding the $2.59 million threshold and eliminated above amounts exceeding $3.63 million.

For property placed in service in taxable years beginning after December 31, 2017, taxpayers can also elect to include certain improvements including roofs, HVAC, fire protection, alarm and security systems. You can also deduct improvements to a building's interior except the enlargement of the building, any elevator or escalator or the internal structural framework of the building.

Real estate qualified improvement property is eligible for immediate expensing, thanks to the CARES Act, which corrected an error in the Tax Cuts and Jobs Act. Taxpayers are also able to amend 2018 tax returns, if necessary.

Many business taxpayers may be eligible for the Qualified Business Income Deduction. This deduction is worth up to 20 percent of qualified business income (QBI) from a qualified trade or business for tax years 2018 through 2025. Your taxable income must be under $163,300 ($326,600 for joint returns) in 2020 to take advantage of the deduction. The QBI is complex, and tax planning strategies can directly affect the amount of deduction, i.e., increase or reduce the dollar amount.

Small business employers with 25 or fewer full-time-equivalent employees with average annual wages of $50,000 indexed for inflation (e.g., $55,000 in 2019) may qualify for the Small Business Health Care Tax Credit to help pay for employees' health insurance. The credit is 50 percent (35 percent for non-profits).

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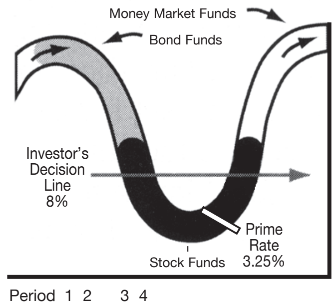
The Money Movement Strategy

Prime Rate Chart for Money Movement Strategy



Long-Term Direction: Level
Monthly Change: 0.00%

How It Works

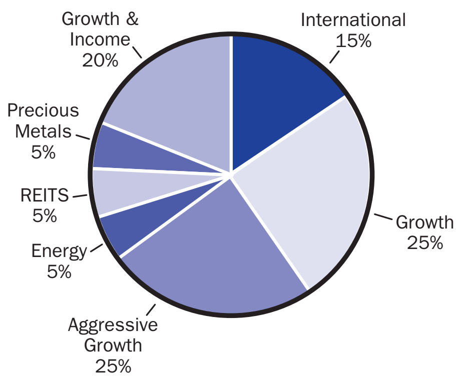
Long-term increases or decreases in the value of stocks, bonds and money market instruments are caused by changes in interest rates, primarily the Prime Rate. Of the three categories of mutual funds — stock, bond, or money market, there is only one type of investment that will give you above-average returns at any given time.

The Money Movement chart represents typical changes of interest rates smoothed out over time. The Investor's Decision Line (IDL) indicates the point at which you should move your money from one type of fund to another. At this time, the IDL indicates stock funds.

Models For Portfolio Management

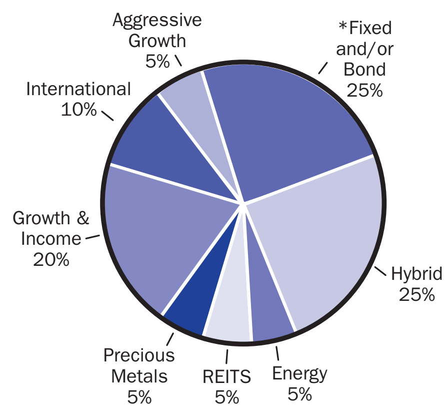
Aggressive

Keep all mutual funds and retirement money in stock funds.



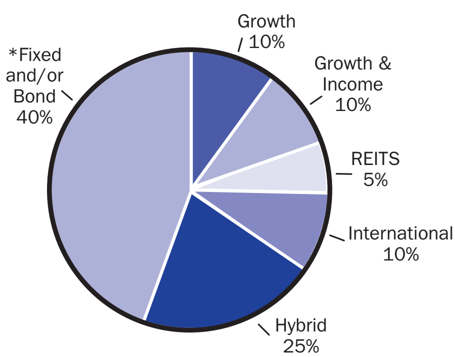
Moderate

Keep most mutual funds and retirement money in stock funds.



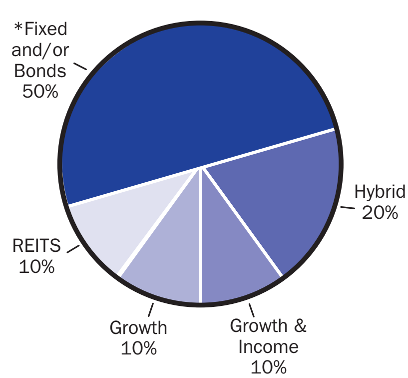
Conservative

Keep most mutual funds and retirement money in stock funds.



Retirees

Note: This portfolio does not follow the Money Movement Strategy! Create the proper mix of Stock, Bond, and money market funds.



*Fixed Market-Linked CDs

No-Load Mutual Funds*

Fund Name/Type	Stock Symbol	Buy, Sell or Hold	3 Month % Change	Average Annual Returns as of 10/31/20: 1 Year % Change	5 Year % Change	10 Year/ % Change	Expense Ratio
Aggressive Growth							
BNY Mellon Small Cap Index	DISSX	Buy	1.56	-8.01	5.96	9.95	0.50
Kinetics Paradigm No Load	WWNPX	Buy	-6.24	-13.72	6.69	7.75	1.64
Needham Growth	NEEGX	Buy	-1.05	22.73	11.81	10.74	1.98
Schwab Hedged Equity Select	SWHEX	Buy	-3.92	-9.33	1.04	4.44	1.92
Value Line Small Cap Opp	VLEOX	Buy	1.11	7.38	10.18	12.86	1.19
Growth							
American Century Mid Cap	ACMVX	Buy	0.56	-7.31	5.56	9.69	0.98
BNY Mellon MidCap Index	PESPX	Buy	2.19	-1.66	6.87	9.83	0.50
Harbor Mid Cap Growth Inv	HIMGX	Buy	6.66	45.18	19.54	15.62	1.25
Janus MidCap Value T	JMCVX	Buy	1.41	-10.53	4.90	7.02	0.99
Neuberger Berman Partners Inv	NPRTX	Buy	-1.45	-4.50	8.45	8.99	0.87
Selected American Shares	SLASX	Buy	2.65	1.21	7.52	9.47	0.98
American Century Small Cap Value	ASVIX	Hold	4.92	-9.84	4.58	7.97	1.25
Growth & Income							
American Century Equity	TWEIX	Buy	-0.54	-5.48	7.73	9.10	0.92
American Century Large Value	ALVIX	Buy	-0.19	-6.28	5.64	9.18	0.84
Fairholme	FAIRX	Hold	14.23	13.27	2.95	4.58	1.00
Parnassus Equity Income Inv	PRBLX	Buy	1.67	12.65	11.85	13.04	0.86
Janus Contrarian	JSVAX	Buy	7.72	17.28	11.00	9.57	0.81
T. Rowe Price Equity Income	PRFDX	Buy	-1.09	-11.29	5.34	6.07	0.64
Hybrid							
American Century Balanced	TWBIX	Buy	-0.90	7.54	7.50	8.33	0.91
James Balanced Golden Rainbow	GLRBX	Buy	-0.67	-1.63	0.87	4.00	1.08
Oakmark Equity & Income	OAKBX	Buy	1.88	1.03	5.01	6.69	0.81
Pax Sustainable Individual Inv	PAXWX	Buy	0.66	9.20	7.69	7.66	0.92
Permanent Portfolio	PRPFX	Buy	-1.13	11.47	6.79	4.20	0.85
Value Line Asset Allocation Inv	VLAAX	Buy	-0.27	9.70	10.38	10.76	1.08
International							
American Century Intl Growth	TWIEX	Buy	2.54	13.89	7.09	6.49	1.18
Artisan International Inv	ARTIX	Buy	-3.30	-1.24	4.93	6.06	1.19
Matthews China Investor	MCHFX	Hold	7.36	47.23	16.17	7.07	1.09
William Blair Intl. Growth	WBIGX	Buy	3.82	19.17	8.05	6.45	1.45
T. Rowe Price Emerging	PRMSX	Buy	2.31	26.14	11.78	19.67	0.76
Sector Funds							
American Century Real Estate Inv	REACX	Buy	-5.96	-19.76	3.02	7.73	1.16
Cohen & Steers Realy Shares	CSRSX	Buy	-3.96	-13.95	4.87	8.37	0.89
T. Rowe Price Health Sciences	PRHSX	Buy	2.31	26.14	11.78	19.67	0.76
USAA Precious Metals/Minerals	USAGX	Sell	-13.23	34.37	18.35	-4.24	1.19
US Global Investors Global Res	PSPFX	Hold	-1.68	10.22	1.51	-5.26	1.58
Bond Funds							
American Century Infl-Adj Bond	ACITX	Buy	0.08	8.26	3.86	2.65	0.47
Fidelity Capital & Income	FAGIX	Buy	1.22	3.53	6.08	6.43	0.67
Janus Flexible Bond	JAFIX	Buy	-1.02	8.34	4.20	3.91	0.69
Loomis Sayles Bond Retail	LSBRX	Buy	-1.13	-2.18	3.08	3.91	0.92
Pax High Yield Bond Indv Inv	PAXHX	Buy	0.40	5.52	5.48	4.82	0.96
American Century Sh-Dur Bd fund	APOIX	Buy	0.77	4.15	2.27	1.58	0.57
Western Asset Core Bond	WATFX	Buy	-1.22	6.97	4.94	4.53	0.45

* Some funds may be closed to New investors due to demand.

The performance data quoted represents past performance and the principal value and investment return will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Returns shown, unless otherwise indicated, are total returns, with dividends and income reinvested. Past performance is no guarantee of future results.

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Beware of Quick Fix Credit Repair Scams

You've probably seen ads from companies promising a "new credit identity" or a fresh start for your credit history. It may seem like just the thing you need to get your credit back on track, but it's actually a scam. These companies often sell Social Security numbers illegally.

> If your credit is less than golden, there are steps you can take to repair it on your own, at no cost.

If your credit is less than golden, there are steps you can take to repair it on your own, at no cost. Only time and a personal debt repayment plan will improve your credit.

Companies promising a "new credit identity" say they can help you hide bad credit history or bankruptcy for a fee. If you pay them, these companies will provide you with a nine-digit number that looks like a Social Security number. They may call it a CPN — a credit profile number or a credit privacy number. Or, they may direct you to apply for an EIN — an Employer Identification Number — from the Internal Revenue Service (IRS). EIN's are legitimate numbers, typically used by businesses to report financial information to the IRS and Social

Security Administration — but an EIN is not a substitute for your Social Security number.

The credit repair companies may tell you to apply for credit using the CPN or EIN, rather than your own Social Security number. And they may lie and tell you that this process is legal. But it's a scam. These companies may be selling stolen Social Security numbers, often those taken from children. By using a stolen number as your own, the con artists will have involved you in identity theft.

If you follow a credit repair company's advice and commit fraud, you might find yourself in legal trouble. It's a federal crime to lie on a credit or loan application, misrepresent your Social Security number or obtain an EIN from the IRS under false pretenses.

Strategies for Business Owners

• *continued from page 7*

Business energy investment tax credits are still available for eligible systems placed in service on or before December 31, 2022. Business energy credits include geothermal electric, large wind, solar and hybrid solar energy systems used to generate electricity, to heat, cool, or to provide hot water for use in a structure, or to provide solar process heat.

Where possible, end of year repairs and expenses should be deducted immediately, rather than depreciated. Small businesses lacking applicable financial statements can take advantage of de minimis safe harbor by electing to deduct smaller purchases ($2,500 or less per purchase or invoice). Businesses with applicable financial statements can deduct $5,000. Small businesses with gross receipts of $10 million or less can also take advantage of safe harbor for repairs, maintenance, and improvements to eligible buildings.

For luxury passenger vehicles placed in service after December 31, 2017, If the taxpayer doesn't claim bonus depreciation, the maximum allowable depreciation deduction for 2020 is $10,100 for the first year. Deductions are based on a percentage of business use. For passenger autos eligible for the additional bonus first-year depreciation, the maximum first-year depreciation allowance remains at $8,000. It applies to new and used ("new to you") vehicles acquired and placed in service after September 27, 2017 and remains in effect for tax years through December 31, 2022. When combined with the increased depreciation allowance above, the deduction amounts to as much as $18,100 in 2020.

Heavy vehicles including pickup trucks, vans, and SUVs whose gross vehicle weight rating (GVWR) is more than 6,000 pounds are treated as transportation equipment. As such, heavy vehicles (new or used) placed into service after September 27, 2017, and before January 1, 2023, qualify for a 100 percent first-year bonus depreciation deduction as well.

Self-employed individuals who have not yet done so should set up self-employed retirement plans before the end of 2020 and reduce accumulated corporate profits and earnings by issuing corporate dividends to shareholders.

Last chance to take advantage of the employer credit for paid family and medical leave, which expires at the end of 2020.

Tax Benefits of Investing in Opportunity Zones

Opportunity Zones offer tax benefits to business or individual investors who can elect to temporarily defer tax on capital gains if they timely invest those gain amounts in a Qualified Opportunity Fund (QOF). Investors can defer tax on the invested gain amounts until the date they sell or exchange the QOF investment, or Dec. 31, 2026, whichever is earlier.

The length of time the taxpayer holds the QOF investment determines the tax benefits they receive. If the investor holds the QOF investment for at least five years, the basis of the QOF investment increases by 10% of the deferred gain. At seven years, the basis of the QOF investment increases to 15% of the deferred gain. If the investor holds the investment in the QOF for at least 10 years, the investor is eligible to elect to adjust the basis of the QOF investment to its fair market value on the date that the QOF investment is sold or exchanged.

Gains that may be deferred are called "eligible gains." They include both capital gains and qualified 1231 gains, but only gains that would be recognized for federal income tax purposes before January 1, 2027, and that aren't from a transaction with a related person. To obtain this deferral, the amount of the eligible gain must be timely invested in a QOF in exchange for an equity interest in the QOF (qualifying investment). Once this is done, taxpayers can claim the deferral on their federal income tax return for the taxable year in which the gain would have been recognized if they had not deferred it. Taxpayers may make an election to defer the gain, in whole or in part.

A QOF is an investment vehicle that files either a partnership or corporate federal income tax return and is organized for the purpose of investing in QOZ property. To become a QOF, an eligible corporation or partnership self-certifies by annually filing Form 8996, Qualified Opportunity Fund with its federal income tax return. The return, together with Form 8996, must be filed timely, taking extensions into account. An LLC that chooses to be treated either as a partnership or corporation for federal income tax purposes can organize as a QOF.

QOZ property is a QOF's qualifying ownership interest in a corporation or partnership that operates a QOZ business in a QOZ or certain tangible property of the QOF that is used in a business in the QOZ. To be a qualifying ownership interest in a corporation or partnership, (1) the interest must be acquired after December 31, 2017, solely in exchange for cash; (2) the corporation or partnership must be a QOZ business; and (3) for 90% of the holding period of that interest, the corporation or partnership was a QOZ business.

QOZ business property is tangible property that a QOF acquired by purchase after 2017 and used in a trade or business and:

- the original use of the property in the QOZ commenced with the QOF or QOZ business OR
- the property was substantially improved by the QOF or QOZ business; and
- during 90 percent of the time the QOF or QOZ business held the property, substantially all (generally at least 70 percent) of the use of the property was in a QOZ.

Leased property may also qualify as QOZ business property. The lease must be a market-rate lease entered into after December 31, 2017, to qualify.

Each taxable year, a QOZ business must earn at least 50% of its gross income from business activities within a QOZ; however, the regulations provide three safe harbors that a business may use to meet this test. These safe harbors take into account any of the following:

- Whether at least half of the aggregate hours of services received by the business were performed in a QOZ;
- Whether at least half of the aggregate amounts that the business paid for services were for services performed in a QOZ; or
- Whether necessary tangible property and necessary business functions to earn the income were located in a QOZ.

T. Rowe Price Health Sciences Fund (PRHSX)

This fund was reviewed most recently back in late 2018. Given its strong long-term performance, combined with the demographic trends here in the U.S. (and most of the rest of the developed countries), I felt like it was time to highlight it once again.

Before I get into the specifics, I want to quickly revisit the topic of asset allocation, which I've covered in this column in the past. The underlying theme of asset allocation is for an investor to establish a mix of Stocks, Bonds and Cash that offers a risk/reward profile suited to their individual circumstances. Since this fund concentrates all of investments in just one sector of the market, it may prove to be more volatile than the broader market. It's important to keep this in mind when contemplating an investment in this or any "Sector" fund. With that said, we typically limit investments in sector funds to anywhere between 5% - 15% of one's portfolio.

For investors with a long-term outlook, the shift in the demographic makeup of our country may create some investment opportunities. Companies within an industry with strong and durable demand that can provide quality products and/or services at competitive prices, or introduce technological breakthroughs, have the opportunity to consistently grow their revenues and earnings, and subsequently see their share price appreciate.

T. Rowe Price Health Sciences fund (PRHSX) is a no-load mutual fund that invests at least 80% of net assets in common stocks of companies engaged in the research, development, production, or distribution of products or services related to health care, medicine, or the life sciences. While the fund can invest in companies of any size, the majority of fund assets are expected to be invested in large and mid-capitalization companies.

This fund has north of $15 billion in assets under management and is managed by Ziad Bakri, CFA, M.D. since April of 2016. As of September 30, 2020, the fund had approximately 87% of its assets in U.S. stocks, and about 13% in foreign stocks. Its largest holdings include leaders in their industry such as United Healthcare, Merck & Co., Eli Lilly, Intuitive Surgical, and Humana. The minimum initial investment is $2,500 for non-retirement accounts and $1,000 for IRA accounts.

Performance annualized and updated through 09/30/2020: 1-Year: +26.14%; 3-Year: +14.77%; 5-Year: +11.78%. The gross annual expense ratio is 0.76%.

If you're interested in this fund, or would like a portfolio review to determine if this fund might be an appropriate addition to your portfolio, please call Ted Black, CFP® at 888-878-0001, extension 3.

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From the Financial Hotline

Call, fax or e-mail for answers to all your financial questions.

Q: How do I minimize taxes on my investments?

A: Investment decisions are often more about managing capital gains than about minimizing taxes. For example, taxpayers below threshold amounts in 2020 might want to take gains; whereas taxpayers above threshold amounts might want to take losses. Minimize taxes on investments by judicious matching of gains and losses. Where appropriate, try to avoid short-term capital gains, which are taxed as ordinary income (i.e., the rate is the same as your tax bracket).

In 2020 tax rates on capital gains and dividends remain the same as 2019 rates (0%, 15%, and a top rate of 20%); however, threshold amounts have been adjusted for inflation as follows:

0% - Maximum capital gains tax rate for taxpayers with income up to $40,000 for single filers, $80,000 for married filing jointly.

15% - Capital gains tax rate for taxpayers with income above $40,000 for single filers, $80,000 for married filing jointly.

20% - Capital gains tax rate for taxpayers with income above $441,450 for single filers, $496,600 for married filing jointly.

Where feasible, reduce all capital gains and generate short-term capital losses up to $3,000. As a general rule, if you have a large capital gain this year, consider selling an investment on which you have an accumulated loss. Capital losses up to the amount of your capital gains plus $3,000 per year ($1,500 if married filing separately) can be claimed as a deduction against income.

Q: Does the timing of dividend payments affect my tax liability?

A: It can. Before investing in a mutual fund, ask whether a dividend is paid at the end of the year or whether a dividend will be paid early in the following year but be deemed paid this year. The year-end dividend could make a substantial difference in the tax you pay.

Action: You invest $20,000 in a mutual fund in 2020. You opt for automatic reinvestment of dividends, and in late December of 2020, the fund pays a $1,000 dividend on the shares you bought. The $1,000 is automatically reinvested.

Result: You must pay tax on the $1,000 dividend. You will have to take funds from another source to pay that tax because of the automatic reinvestment feature. The mutual fund's long-term capital gains pass through to you as capital gains dividends taxed at long-term rates, however long or short your holding period.

The mutual fund's distributions to you of dividends it receives generally qualify for the same tax relief as long-term capital gains. If the mutual fund passes through its short-term capital gains, these will be reported to you as "ordinary dividends" that don't qualify for relief.

Depending on your financial circumstances, it may or may not be a good idea to buy shares right before the fund goes ex-dividend. For instance, the distribution could be relatively small, with only minor tax consequences. Or the market could be moving up, with share prices expected to be higher after the ex-dividend date. To find out a fund's ex-dividend date, call the fund directly.

Q: Will the PPP and EIDL loans be taxable?

A: If you receive the PPP loan: the forgivable portion of your loan isn't considered taxable business income, and therefore, you won't have to pay income tax on it. The CARES Act specifically deems that the forgivable component of these loans isn't included as part of your business' gross revenue, so you don't have to include it in your gross receipts.

While there hasn't been guidance specifically for the $1,000 per person grant (up to $10,000) that you can receive as part of the Economic Injury Disaster Loan, (whether or not you get approved for the actual loan), we assume that, because it's a grant and not a forgiven loan, that this amount would be taxed. Hopefully, we'll soon see guidance published to clarify this. For EIDL, everything beyond that grant of $1,000 per employee is a loan and must be repaid. Therefore, these loans will not be taxed, just like any other loan. Additionally, you may be eligible to take a qualified business income deduction for the interest paid on either the EIDL or PPP loans if you use them for eligible business expenses.

Note: While the federal government has vowed not to tax PPP and EIDL loans, we don't have the guarantee that states won't.

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