SPECIAL EDITION
DATA DELAWARE: Tuesday, February 4, 2020
SUBJECT: your upcoming CPA visit will ALSO include… (*podcast transcript*)

DISCLAIMER: This transcript is produced from Data Delaware podcast electronically; the conversion is being offered on a best-efforts basis.

Dace Blaskovitz: Welcome back to Money in Politics in Delaware. Bill Kane, local CPA, and I got to tease the segment before we get into it. Your upcoming visit to the CPA is not going to only include a dialogue most probably of the SECURE Act, S-E-C-U-R-E, but a weekend Wall Street Journal piece, The next retirement tax breaks on the chopping block, Congress just curtailed the Stretch IRA. Here are four more ways lawmakers could take a knife to your retirement plans.

Dace Blaskovitz: One more thing to be talking about when you visit the CPA. So with that said, welcome back. Our most frequent flyer to the program, Bill Kane. I've introduced you as a local CPA. That disclosure is Bill and Dace are personal friends, but we give first time listeners 30 seconds about you, 30 seconds about your business.

Bill Kane: Well, Dace, I'm a lifelong resident of Delaware. I'm a graduate of the University of Delaware and I practice accounting here in Delaware since graduating in 1981, about 40 years ago. The last 31 years have been in Newark where my office still exists. Our core business is providing tax accounting consulting to our roughly 2000 clients. Those clients include individuals, corporations, partnerships, the estates, trusts and non-profits.

Bill Kane: We have relationships with many other professionals in the area, including investment advisors such as yourself, lawyers, retirement planners, insurance agents. This allows us to service the entire financial need of our clients.

Dace Blaskovitz: You're ready to go.

Bill Kane: All set to go.

Dace Blaskovitz: And I'm all excited about this segment. I find this stuff fascinating. So to the audience, again, they changed, they; the political class changed the rules on stretch IRAs. Bill told us about that a couple of weeks ago. He's getting ready to tell us again, but there are in theory some other areas that the political class could challenge. That's what we're getting ready to talk about again in that Wall Street Journal article, there's a great line. The tax law is written in pencil. Can you get any more mean-spirited than that? Before you start talking about that Bill Kane, let's do one more altruistic thing. What's new in social security for 2020?

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Bill Kane: Well, there are several changes that impact social security in 2020. The first is the maximum taxable income base subject to social security increases $4,800 this year to $137,700. So the maximum tax paid on this base will be $21,068.10, half of that from employees half from the employers. On the earnings and excessives base, you will pay Medicare tax of 2.9% on the excess, so that's a small change. Second, this one affects many people, but minor, minor impact.

Bill Kane: The cost of living increase for benefits for 2020 is 1.6% so the average social security recipient will receive an additional $24 per month. Of course, then Medicare premiums will increase by $9 a month for most retirees, which will offset some of that cost of living increase. Higher income tax payers will see larger Medicare premium increases, but the nine is the average.

Bill Kane: Social security recipients who are under full retirement age, they can earn up to $18,240 without having it impact their social security. That's an increase from about $600 this year, but any excess over that $18,240 will result in a forfeiture of $1 of benefits for every $2 that you're over the limit.

Dace Blaskovitz: All right, well done. Last time you were here, we talked about the SECURE Act. Any update?

Bill Kane: Well, yeah, there is, but before I talk about that, let's talk a little bit about what other items Congress may be addressing in the retirement area. I've seen several articles indicating Congress wants to take the SECURE Act to the next step and expand it a little bit in some of the items or two of the items they've mentioned are requiring companies to offer a 401k or 403b plans, that's a dramatic change.

Bill Kane: And then second, and this one affects many people. It would exempt retirement assets under $250,000 from the required minimum distribution roles. That would be, that would really be a game changer for a lot of the smaller taxpayers out there.

Dace Blaskovitz: All right, I got to move this along a little bit. The giggle is it's a bipartisan and it may be the only thing, but last time we started to talk about backdoor Roth IRAs and Roth IRAs in general. I guess the question is any concerns there?

Bill Kane: Well, yeah. First, a backdoor Roth to me is an area that I'm shocked Congress has hasn't closed this loophole. It basically allows individuals who under existing law are really precluded from making Roth IRA contributions, but to circumvent the rules, you make a non-deductible IRA contribution, then you roll that contribution to the Roth.

Bill Kane: I mean, I've recommended this numerous times over the years to clients. Honestly, this can't go on forever, but hopefully we're going to be able to sneak another year out of this and it's a significant benefit that I think many people want to take a look at.

Dace Blaskovitz: What the standard Roth? Again, any concerns there?

Bill Kane: Well, yeah, I really am. The Roth allows taxpayers to avoid tax legally. It's not a deferral, but truly gives retirees the ability to avoid tax on the asset appreciation in Roth accounts. At some point, this is going to be too much for Congress to stomach.

Bill Kane: Many high income tax payers are maximizing Roth accounts through 401k Roths and backdoor Roths. So ultimately they're not going to pay tax on that. So I would bet at some point there will be a maximum value placed on the account or an income threshold for future Roth contributions.

Dace Blaskovitz: Back to the SECURE account and stretch IRAs. Let's do a little redundancy here. Why is this such a big deal?

Bill Kane: Yeah. Again, Congress hated this long-term deferral and tax avoidance with these stretch IRAs. The fact that they changed the rules after such a long period, it's been nearly 30 years where the stretch IRAs been existence only makes me more sure eventually that they're going to call back some of those Roth benefits we just talked about. But back to the stretch IRA.

Bill Kane: I mean, this will significantly accelerate tax being paid on the assets tied up in these accounts. It also makes it more expensive to transfer this wealth to children and grandchildren, with the added benefit of course. So providing Congress with more funds to pay for some of their crazy ideas, such as never changing social security or free college education, or paying off existing college loans, or the new one Medicare for All.

Dace Blaskovitz: We traded emails. I saw an article recently about HSAs; health savings accounts and how they interact with Medicare.

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Bill Kane: Well, I mean you shared that article with me and I found it very interesting. First let me talk about the HSA accounts. I have said on this program many times, I recommend high-deductible insurance plans and HSA to both individuals and businesses that are my clients. I believe this results in the cheapest cost for health care. The article indicates once you're eligible for Medicare, you can no longer make contributions to your HSA. And if you think about it, this actually makes sense, since you're no longer have a high deductible plan.

Bill Kane: The part of the article that was surprising was Medicare has a six-month retroactive rule, so they deem you covered up to six months prior to the actual coverage. Or if it's less than that, back to the actual day you're eligible to be covered. So any contributions that you make to your HSA, which normally would be deductible are really excess contributions and subject to penalties.

Bill Kane: So it's important to remember when you're going to file for Medicare, you got to integrate that with your HSA. It's also important to remember, while you can't make contributions, you can still make distributions to pay your medical expenses from the funds that are still available in your HSA.

Dace Blaskovitz: Gosh, they make it simple, don't they?

Bill Kane: Yes, they do.

Dace Blaskovitz: His name is Bill Kane, he's a local CPA. It's Dingle & Kane. They're headquartered in Newark, Delaware. The phone number to go with it is (302) 731-5200 and let me plug this story again. The Next Retirement Tax Breaks on the Chopping Block, Congress Just Curtailed the Stretch IRA. Here Are Four More Ways Lawmakers Could Take a Knife to Your Retirement Plans. Absolutely. Tax law is written in pencil. I love that line. What's going to happen?

Bill Kane: That is a great line.

Dace Blaskovitz: We're going to take a short break. We will be right back.