WINTER 2020

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

INSIDE THIS ISSUE

How the SECURE Act Impacts Retirement Planning

At the end of December 2019, Congress signed into law, as part of a government-spending package, provisions from the Setting Every Community Up for Retirement Enhancement (SECURE) Act. The reforms are intended to make retirement saving easier and include changes to IRAs, 401(k)s, 403(b)s, and 529 college savings accounts. It also includes changes designed to make it easier for small employers to adopt a retirement plan. Most of the provisions went into effect on January 1, 2020. Here are some of the important changes:

IRAs and 401(k)s

The maximum age for traditional IRA contributions, currently 70½, was repealed, and contributions can now continue to be made if an employee is still working. This applies to tax-year-2020 contributions that can be made until April 15, 2021.

Long-term, part-time workers previously ineligible for 401(k)s may now participate if they work more than 1,000 hours in one year or 500 hours over three consecutive years (except for collectively bargained plans).

The SECURE Act provides a safe harbor to employers who elect to offer pension annuities to retirees. This is designed to make monthly pension benefits more available to retirees.

The age for required minimum distributions (RMDs) for IRAs and 401(k)s has been raised from 70½ to 72 for those who were not 70½ by the end of 2019.

Inherited IRA and 401(k) distributions that non-spouse beneficiaries were previously permitted to "stretch" over their life expectancy must now be withdrawn within 10 years following the account holder's death. This 10-year requirement will accelerate and increase income taxes for many families. There are exceptions for surviving spouses, minor children, and certain other beneficiaries.

Parents can withdraw up to $5,000 from IRAs or 401(k)s within a year of the birth or adoption of a child for qualified expenses without early-withdrawal penalty.

529 Accounts

Parents can withdraw up to $10,000 from these plans tax-free to repay student loans over the student's lifetime.

These changes may create opportunities for you or require you to reevaluate your existing retirement or estate plans. Please talk to us about how we can help you assess the impacts of the SECURE Act.

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JENTNER WEALTH MANAGEMENT

THE PRESIDENT'S WORD

Timing Isn't Everything

Bruce Jentner, CFP®, President

"Stocks around the world closed out one of their best years over the past decade, defying money managers who began 2019 expecting the bull market to be upended by threats from the U.S.-China trade fight and a slowdown in growth." So opened a January 2, 2020 article in the Wall Street Journal.

Professional money managers and economists predict the coming year at the beginning of each new year. We all want to hear what they have to say, but no one knows whose predictions will be right.

Investors attempting to buy individual stocks or make tactical investments at the right time face substantial challenges. The markets are fiercely competitive and process information quickly. Trying to time investments based on this morning's newspaper or today's television news is naive. To successfully time the market, investors must make the call to buy or sell correctly not once but twice—when getting in and out.

Research indicates that even professional investors have difficulty beating the market. Over the last 20 years, 77% of equity funds and 92% of fixed-income funds failed to survive and outperform their benchmarks after costs.*

The only way to have participated in the solid market gains of 2019 was to be invested. Unfortunately, some people sat on the sidelines "knowing" this bull market could not continue forever and the market would eventually decline.

My thoughts? They are right, but their timing is wrong. Why? Because no one can successfully time the markets. Even if they occasionally get it right, they get it wrong often enough to diminish their long-term returns.

Bull markets do not last forever. Recessions are part of the normal economic cycle. Economic expansions all come to an end. However, one persistent flaw in the thinking of many analysts and investors is that an economic expansion must come to an end because of old age alone.

History contradicts this widespread claim. Research conducted by the San Francisco Federal Reserve Bank in 2016 shows that old economic expansions are no more likely than young expansions to die in the following year.

Entrepreneurship and public policy have a greater impact on the economy. Think about the innovations of the last decade. The U.S. has gone from the world's largest importer of petroleum products to a net exporter. Cancer death rates are headed down. The technology we hold in our hands dwarfs what the best desktops could do a decade ago. Meanwhile, public policy is boosting economic growth. Taxes and burdensome regulations have been reduced. Trade conflicts appear to be waning.

Does this mean we are predicting further economic expansion and a bull market for 2020? No. If we (or anyone we know) could reliably predict the future, we would recommend concentrated positions. Then, we would tell you whether to be in stocks, bonds, or cash. We would time the market and become investment heroes.

Because we do not know anyone who can reliably predict the market, we developed The Four Cornerstones of Prudent Investing™:

1. There are no safe havens.
2. Market timing is hazardous.
3. Concentrated portfolios are risky.
4. Emotions are more powerful than logic.

We recommend investors maintain risk-appropriate, globally diversified portfolios of stocks, bonds, and cash. When the economic expansion ends and the stock-market declines (whether in two months or in two years), we will employ systematic investment rebalancing to take advantage of the market decline—with no market predictions.

We will not know how long the market will decline or how severe the decline will be. But, we will take advantage of the decline to acquire investments at favorable prices to participate in the next market advance.

Because successful investing is contrary to our natural urges and because there is so much noise confusing matters even further, we recommend each investor focus on what they control. There are several things in life you cannot delegate: your physical exercise, your diet, and your investment behavior.

It is smart to seek professional guidance and coaching for all three. If you have both physical health and financial health, you improve your opportunity to pursue what you believe is significant and important in life. Do not let money get in your way.

*Mutual Fund Landscape Report 2019, Dimensional Fund Advisors

10 Major Trends in IRS Audits

Most taxpayers consider the possibility of an IRS audit when they file their tax returns and pay their taxes. But the number of IRS audits in 2018 dropped by almost half from 0.9% in 2010 to 0.5%, based on a significant reduction in IRS audit resources. Based on IRS audit data, the following are 10 major trends in IRS audits from the past decade that may be surprising.

1. Most audits are done by mail.

In 2018, 75% of audits of individual taxpayers were done by mail. They usually challenge deductions or small credits and only require a mail response by the taxpayer.

2. Earned income tax credit is the main audit issue.

Half the individual audits involved claiming the federal EITC (a tax credit for low- to moderate-income working individuals and couples, particularly those with children, which depends on income and number of children).

3. Many taxpayers do not respond to an IRS audit.

Almost two thirds of all mail audits were not responded to, or the IRS assessed additional tax without the taxpayer contesting the IRS determination. Only one-in-five taxpayers agreed with their mail audit adjustment, and it is likely that they did not understand how to appeal it.

4. The most common IRS challenge is underreported income.

The IRS uses an automated program that matches a taxpayer's IRS forms W-2 and 1099 to filed tax returns to identify discrepancies in reported income. A CP2000 notice may be sent to the taxpayer proposing additional taxes (and penalties) are due. This is not an audit, and the IRS is not allowed to examine taxpayer records, but most taxpayers still feel that they have been audited.

5. The IRS knows who to audit.

When the IRS selects a tax return to audit, they usually know it will result in an adjustment. For all taxpayers, the audit change rate was 89% in 2018, and it has been between 81% and 89% since 2005.

6. Field audits are rare but expensive.

IRS audits conducted in the field were at an all-time low in 2018, at less than one quarter of a million audits. They are the most comprehensive audits and are usually for complex returns. The average amount of additional taxes owed as a result of 2018 field audits was $85,400.

7. S corporations and partnerships escape audits.

Less than 1% of pass-through entities were audited in each year from 2010 through 2018, and only one in 455 pass-through entities were examined in 2018. The IRS is struggling with audits of S corps and partnerships due to retirement of experienced business auditors.

8. Audits of wealthy taxpayers have dropped but are still popular.

The most popular audit profiles include taxpayers who earn more than $1 million. But in 2018, only 1 in every 31 taxpayers earning over $1 million was audited (down from 1 in every 8 in 2011).

9. Audits have dropped, but penalties are still prevalent.

Although the total volume of individual audits and CP2000 notices dropped from 2005 to 2018, the number of taxpayers with an accuracy penalty for errors in their tax returns increased 10 times. The IRS is penalizing errors to deter future noncompliance.

10. Tax-evasion prosecutions are low.

The number of tax-evasion criminal investigations and indictments dropped 58% from 2013 to 2018, which correlates to a decline in IRS field auditors and criminal investigators during those years.

To avoid lost tax revenues due to inaccurate returns, the IRS plans to continue to keep taxpayers in compliance despite the declines in audits and resources. Their non-audit notices to taxpayers have increased from 30 million in 2001 to more than 219 million per year.

ACKNOWLEDGEMENT: This was adopted from an article published by Jim Buttonow in Accounting Today, based on Internal Revenue Service Audit Data.

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The Paradox of Perceived Risk

The January 24, 2020 Kiplinger Tax Letter provided several cautions regarding identity theft for which we believe you should be on the lookout.

Be alert to IRS phone impersonation scams.
These phone scams surge during tax-return filing season. The callers claim to be IRS workers and tell people they owe taxes and must pay these taxes through wire transfers, gift cards, or other payment techniques. Do not give out any information. Hang up!

Email phishing scams are also on the rise.
Beware of unsolicited emails or websites resembling legitimate sites that request personal or financial information. There are many different phishing scams, such as emails claiming to be from the IRS requesting additional information to provide tax refunds as well as emails claiming to be from banks, stores, or even an executive at your place of employment requesting additional personal information.

The Internal Revenue Service requests if you receive a tax-related IRS-looking phishing communication, forward it to the IRS at phishing@irs.gov.

Here are some steps you can take to help protect yourself:

- **Make sure you have anti-virus security software.** Put this software on all electronic devices and mobile phones, and set this software to update automatically.
- **Use strong passwords.** Longer phrases that are easier for you to remember are apparently harder for criminals to hack.
- **Use two-factor authorization systems whenever possible.** When you log in to a website, require the website to send a security code to your phone. More and more websites are encouraging this.
- **Shop only at websites with addresses that start with "https."** The letter "s" indicates the website has taken precautions to be secure.

In this digital age, it is important to stay alert, be aware of current scams, and take precautions to help protect your personal information.

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