Inside Highlights:

"Question: What sort of projects does the Fed encourage with zero nominal interest rates, that aren't worth doing at even interest rates of 1-2%?
"Answer: Only projects with near-zero rates of return— primarily those that involve enormous amounts of leverage, where interest is the primary cost of doing business. The main activity that fits these criteria is yield-seeking financial speculation."

— John P. Hussman, Ph.D., Hussman Funds June 7, 2020 Market Commentary

Tax and Financial Strategies

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Wealth Creation Strategies

What is "the Virus?"

With apologies in advance, I'm going to step on some toes in this issue on the subject of the Virus. What I present is, as always, only my opinion. Understanding the Virus and our response to it is important not only because I'm a seeker of truth, but also personally: our family couldn't see my 93-year-old mother while in assisted living for several weeks prior to her passing in early April, or as she lay dying in the hospital—because only one person was allowed in—period—and my sister was already there. I'm sure this is true for tens of thousands who couldn't see close family members in their final moments. These restrictions are not just a tragedy; they are an abomination.

An underlying theme of George Orwell's dystopian novel, *1984*, is that words shape our emotional state and beliefs and, therefore, can manipulate and be used for propaganda. Scientifically accepted terms for the Virus, "coronavirus" or "COVID-19," removes the blame from the government (China), which lied about its origination and dissemination. By using more appropriate terms, we can protect ourselves from falling for such deception.

While not likely manufactured or intended for use as a bioweapon, the release of the Virus is, in my opinion, the result of the greatest socialist incompetence ever—making Chernobyl appear as a ripple in a pond compared to the towering Pacific tsunami of the Virus. The U.S. government, which knew what the Wuhan lab was doing, warned the Chinese government that the lab was not well secured, relative to the risks. The lab experimented with bat viruses, among others. The bat that carries this virus is not endemic to the area near the lab and was not being sold legally in the "wet" markets of Wuhan. One explanation among several is a lab worker wanted to make some side cash and sold a bat to the wet market a mere few hundred yards from the lab; another is an infected lab worker went shopping without proper decontamination, and the spread began. The Chinese government helped push a false narrative (that the Virus originated in the wet market via natural bats, not the lab) while hiding the facts of the Virus, including its virulence. From new satellite images showing suddenly packed hospitals in Wuhan in the fall of 2019 we can infer they may have known the truth for months. China's inability, unwillingness or refusal to shut down the spread beyond their borders has led to a worldwide pandemic, which has led to what will likely become the greatest human disaster ever—the global hysterical lockdown response to the Virus. The lockdown will likely cause more poverty, decreased life expectancies and premature deaths in the long run than the Virus itself, by an order of magnitude (a case I will make in a later issue). Hence, my preferred monikers for this illness: the Chinese Communist Party Virus, shortened to CCP Virus, or the Beijing Regime Virus. Either name puts the blame squarely where it belongs. However, so as not to distract from the rest of the newsletter, I will simply refer to it as "the Virus." I only hope you associate the Virus with the atrocities of socialism.

Long-Term Tax Savings Opportunities for Declining Incomes

Many of you are suffering adverse financial impacts from closed businesses, reduced hours, extra unanticipated costs and the like during the lockdown. Following is a list of financial planning ideas and health considerations in preventing and responding to collapsed incomes, which create unique opportunities for long-term tax planning and lower taxes over your lifetime.

Create enough income to "use up" low marginal brackets (zero, 10% and 12% for most clients)

Nearly everyone benefits by paying federal income tax now at 10% and 12% rates, because most of you will pay tax in future years at rates of 22% and higher, especially if/when tax rates increase, you earn more income, or your filing status changes from married to single. This can be true whether you "need" the extra income now or later. You generally *want* to create more income at lower rates so you can pay more tax *now*.

Even if you don't think your income will ever increase, in this new world of massive government deficits and totalitarian controls, do you *really* think such low tax rates will last?

How can you create more taxable income? Working more hours is easier said than done with the abrupt elimination of 40 million jobs over the past few months, many of which will never return. You may not want to start your own business; why risk your sweat and hard-earned capital when government can shut down and destroy your business in a heartbeat? (I suspect the greatest unrecognized negative consequence of the hysteria is a likely dramatic contraction in new business formation. Blend the lockdown with riots, looting and California's AB5,* and we have a recipe for a collapse in new business formation.)

If you find it hard to find or create work, what can you do? Most people can artificially increase income using sources they already have. These are the five primary ways:

* California's legislation called AB5 turns many independent contractors into unwitting employees. This could easily spread beyond California in the upcoming election. AB5 will be a topic in an upcoming issue of *WCS*.

(1) Sell stocks or other assets in which you have gains

If you own securities or property in non-retirement accounts in which you still have unrecognized (have not yet sold them) gains, you can sell and pay tax on those gains. This must be done carefully, because the additional tax may range from 0% to 45%, or even higher. (Ignore the untruth that the capital gains tax rate is 15% or less—one of countless myths about marginal tax rates; 24%-35% is a common combined rate for Californians). Many of you have substantial gains in stocks you've owned for years; you can judiciously sell just enough to "use up" the low tax brackets. However, please do not try this yourself—there are numerous hidden, higher marginal tax brackets; this is not a "DIY" project.

If you own a business, you can sell business assets, such as vehicles, at a gain. But remember: the gain is determined by selling price *less* depreciated basis, *not* the original cost!

(2) Decrease your pre-tax retirement plan contributions

Pre-tax 401k contributions to the extent of employer matching are nearly always a no-brainer. But for those in low brackets, you should *generally* opt for a Roth 401k, *if available*. If your company only offers a traditional 401k, most in the 12% (and sometimes higher) bracket should limit contributions to what the employer matches; save the rest for Roth IRA contributions to be made in early 2021 (by April 15, we hope!) for tax year 2020, when we tell you how much to contribute as we prepare your 2020 return.

There are exceptions to every rule, however: income tax credits for certain retirement plan contributions for low-income earners can boost effective marginal tax rates to 50% and higher. *Generally*, low-income earners age 50 and over with little in pre-tax retirement accounts should *maximize* pre-tax contributions. This requires careful planning.

(3) Accelerate income

If you are self-employed, accelerate income by billing clients/customers earlier, asking for payment earlier or bill at progressive phases of project completion rather than all at the end. You could also offer incentives such as modest discounts for early payment.

(4) Defer deductions

Business (including S corporations, partnerships and the self-employed) and rental property owners can defer deductions to keep net income (and, therefore, overall income) near desired levels. Supplies and equipment, such as business vehicles, can be purchased *next* year. Contribute to post-tax rather than pre-tax retirement accounts. Defer maintenance and repairs to next year.

(5) Withdraw or convert from pre-tax retirement plans, being careful to avoid tricks and traps

Roth conversions and/or withdrawals from pre-tax retirement accounts should be considered. Generally, these should be done only to the extent you are in a lower marginal tax bracket now (*usually* the 12% bracket or lower) than you expect to be later in life. If you need cash, withdraw from pre-tax accounts. If you do not need the money, convert from pre-tax retirement plans to Roth IRAs to the extent you are in a low bracket. Either option ought to be done with our help, as it is clearly not a "DIY" project; we do more of this type of planning than nearly any other tax firm in the country. However, there are *numerous* tricks, traps and extraneous considerations, including:

a. If you are in a 12% or lower marginal bracket, how much additional income can you create at these rates? Generally, non-itemizers pay tax at 12% or less on 2020 total income (Adjusted Gross Income, or **AGI**) of roughly $52,000 if single, $69,000 if head of household and $104,000 if married. But the type of income matters. Social Security, the Qualified Business Income Deduction (QBID), phase-outs of certain credits, and numerous other factors can make the breakpoints and tax rates vary substantially.

b. Do you expect additional income such as IRA withdrawals to be taxed at a higher rate during retirement? You may think not. But consider the crazy (and hidden) tax rates the phase-in of Social Security creates. You need to receive only $24,500 of non-Social Security income plus $20,000 of Social Security ($35,000 of non-Social Security income plus $30,000 of Social Security for joint filers) before succumbing to the 22.2% phantom (but all-too-real) bracket. This lamentable situation, built into the tax code decades ago by both Republicans and Democrats, was put into high gear in exploitative fashion in 1993 under Clinton by taxing most of the previously taxed employee's share of Social Security, in effect resulting in long-term double taxation of Social Security benefits. (To be fair, Republicans invented the idea under Reagan in 1983, but they only proposed taxing the part that had not yet been taxed, the employer's half.)

Total Income ** where additional income is taxed at 22% or 22.2%		
Filing Status	**Without Social Security**	**With Social Security****
Single	**$52,000**	**$44,500**
Married Filing Joint	**$104,000**	**$65,000**

** Total income (AGI) varies depending on the mix of income, deductions and age(s). Single assumes $24,500 non-SS income plus $20,000 gross (before subtracting Medicare and income tax withholding) SS income; joint assumes $35,000 of non-SS income plus $30,000 of SS income. Both assume the 2020 standard deduction for those age 65 and over. Keep in mind, these are the points at which *additional* income is taxed at these rates.

You may think your retirement income will be under the 22% or 22.2% thresholds. However, what if you are the beneficiary of a previously untaxed retirement plan (think: IRA, 401k and the like), or a large non-retirement plan inheritance that creates a sizable income? In "normal" times, $500,000 invested half-way decently should return 5% per annum; by itself this is an extra $25,000 annually and there you are, smack in the 22.2% marginal bracket if single, with only a modicum of additional non-Social Security income required to be subjected to this rate if married. Or, your plan to keep the tax rate below 22.2% while married may blow up because your spouse dies prematurely. Hidden tax rates and the way Social Security is added to the taxable base frequently cause the survivor's federal and some state marginal rates and total tax to skyrocket (we'll discuss this issue in detail in an upcoming *WCS*).

c. Are you subject to other phantom brackets created by phase-outs of deductions or credits while in hypothetically lower brackets? Examples include those qualifying for the Earned Income Tax Credit, Qualified Retirement Savings Contribution Credit (for relatively low-income savers) and the Advanced Premium Tax Credit Repayment. Special care must be taken, especially with the latter, as affected taxpayers can be catapulted into million percent marginal brackets—one dollar of additional income *can* reduce a credit by $10,000 or more (essentially, an additional tax).

d. Will you eventually relocate to a higher- or lower-tax or no-tax state? Defining which is which is particularly tricky for those moving from, say, "high-tax" California to, for example, seemingly "lower-tax" North Carolina, who may end up in a higher marginal bracket, owing more tax! While California's taxes are steeply graduated, North Carolina's are a flat 5.25%; California *marginal rates* don't exceed 5.25% until non-Social Security income exceeds $75,000 ($37,500 for single filers). A California resident joint filer with income of $75,000 would pay state income tax of $1,350 while the same taxpayer residing in North Carolina would pay $2,900. California's *total* tax stays below that of North Carolina's tax up to a surprising $155,000 of non-SS income (neither state taxes Social Security). A moderate-income joint filer with just $70,000 of income moving from California to Oregon would see their tax skyrocket from $1,000 to more than $4,500. Several clients who failed to consult with us before moving have been shocked at such increased income tax costs.

e. The relative health of the spouses is relevant for joint filers. The survivor's marginal tax rate and total tax can increase substantially. With one less Social Security income and other income remaining unchanged, the survivor's total tax will increase by 20% to as much as an extraordinary 300%.

There is no RMD for 2020. If you already took it, you might be able to roll it back.

When Congress passed the Coronavirus Aid, Relief, and Economic Security (**CARES**) Act on March 27, 2020, they suspended Required Minimum Distributions (**RMD**s) for 2020 for both regular and inherited retirement accounts (IRAs, 401ks, etc.). By then, many had already taken or begun taking their 2020 RMDs. Can such distributions be reversed?

The short answer is "yes," but only if the withdrawal occurred from your own or deceased spouse's retirement accounts after January 31, 2020 and the withdrawn funds **are rolled back by July 15, 2020** (the deadline for most individual tax events this year—filing without an extension, making IRA and other retirement contributions, contributing to HSAs and paying first and second estimated tax payments). Non-spousal inherited IRAs do not get this favorable treatment and cannot be rolled back. We suspect a rollback privilege for RMDs taken in January 2020 will be retroactively allowed, but there is no guarantee. Check with us before July 15 if you want to roll back RMDs taken in January.

What if you learn about this treatment after July 15? Is it too late? Maybe not! If you take an RMD this year, because there are no RMDs in 2020 you didn't really take an RMD, did you? You simply took a temporary distribution from your retirement account, which can be rolled back into an IRA within 60 days of having taken the distribution, creating an indirect rollover.

However, keep in mind you can only do one indirect rollover within any 12-month period. While there is another escape hatch for inadvertent withdrawals within 12 months of each other, one we recently used to save a client roughly $50,000 of tax, this hatch can rarely be used. (Call us *before* rolling back any such second withdrawal; we can see if the escape hatch can help you.)

But wait, there's more! Those who meet certain qualifications of the CARES Act can take a penalty-free withdrawal during 2020 and roll back up to $100,000 of distributions within three years. It's essentially a long-term indirect rollover, discussed next.

If you need funds and are under 59 ½, you can withdraw up to $100,000 from your pre-tax retirement account penalty-free if the Virus impacted your life in prescribed ways

For 2020 only (so far), withdrawals of up to $100,000 per qualified individual, aggregated between all pre-tax retirement plans (IRAs, 401ks, SEPPs and most others), can be taken federal penalty-free (but NOT tax-free!) if you are under 59 ½ years old and:

1. You, your spouse or your dependent is diagnosed with the Virus, OR
2. You lost income due to a layoff, business closure, quarantine, reduction in work hours, or inability to work due to a lack of available childcare, OR
3. You experience adverse financial consequences because of being quarantined or furloughed, OR
4. You experience adverse financial consequences because of reduced work hours or closure of a business owned or operated by the account owner due to the Virus, OR
5. You experience other adverse financial consequences because of factors the Treasury Department and IRS later define (they are authorized to expand the list and are currently reviewing taxpayers' specific suggestions).

It's currently unclear whether a spouse who did NOT lose income or experience adverse financial consequences can take penalty-free withdrawals from his or her own IRA/other retirement account if the *other* spouse lost income for these reasons, or was quarantined or furloughed. We have a hunch this will be explicitly added later, but if this is relevant to you, please email or call us.

Under normal circumstances, active participants cannot take withdrawals from employer-based plans. The administrator of the account (e.g., bank or brokerage firm) approving such a distribution "may rely on an employee's certification that the employee satisfies the conditions" specified above.

If you can, you may repay all or part of the distribution *within three years* of the date the funds were received. In effect, this provision gives you an extended period (way beyond the usual 60 days) over which to complete a rollover! If tax is paid on a prior year distribution and you later decide to repay it partially or fully, an amended return must be filed to request a refund. This will be especially useful for those whose distributions are partly or fully taxed at 22% or higher marginal tax rates, giving us a temporary return of the "mulligans" or "do-overs," which were used to roll back part or all of Roth conversions. However, if you choose to repay, it's unlikely you'll get to pick and choose which part and in which year you repay; it will likely be a ratable add-back over the three years.

Make no mistake: if you keep the withdrawn funds, you will owe tax on the full distribution. However, the tax on such withdrawals *may* be paid over three years, starting with tax year 2020. You might think you would pay one-third of the tax calculated at 2020 rates on such distributions in 2020, a third in 2021 and the last third in 2022. However, that's not how it works: instead, you add a third of the withdrawal to income each year and you pay tax at that year's marginal rate. If income is unpredictable (or you expect it to be higher in the next two years), we don't recommend this, because you could end up paying the tax on the last two-thirds at substantially higher marginal tax rates. We also generally discourage deferred repayments like this because clients who fall behind, especially the self-employed, frequently never catch up. A safer strategy is to opt out of the three-year pay (which is, apparently, an irrevocable election) and withdraw only what you need to "use up" the 12% and lower tax brackets this year, and take loans for any additional funds needed (where additional withdrawals would subject you to higher-than-12% brackets), discussed below. Generally, you want to take advantage of the opportunity to pay tax at the 12% and lower federal marginal rates, which you may never see again (depending on the outcome of the election). Even with a state income tax averaging, say, 5%, this is relatively cheap money.

If you need extra funds, borrow from your pre-tax retirement accounts, including IRAs

Previously, you could borrow up to the lesser of $50,000 or half your account balance from your 401ks or certain other retirement plans, but never from IRAs. Under the CARES Act, you can now borrow up to $100,000 from 401ks, certain other retirement plans and, for the first time ever, IRAs. Loan repayments need not begin until next year (2021 for funds borrowed in 2020) and you have five years from the beginning of next year to repay the loan. But beware: if you fail to make scheduled payments, the balance will become taxable in the year you default; if you are under 59 ½, it will be subject to tax (at your *then* marginal tax rates) *and* early withdrawal penalties (10% federal plus 2.5% state of California; few other states, if any, impose this penalty). If you're uncertain you'll be able to repay it all, it may be better to take a withdrawal that can be repaid within three years where anything you keep isn't subject to federal penalties, rather than taking a loan where you are subject to penalties if you default.

Stay Healthy, Be Productive, Create Wealth

Good health is often crucial to your ability to produce income and create wealth. I do everything I can to stay well; after all, if I get severely ill during the Season, my income could collapse. As a result, I research and experiment extensively on how to stay healthy, which has helped me immeasurably. The methods and tips I've uncovered may or may not help you. Keep in mind I am not a doctor; I am only offering my opinions on what works for me. See your doctor as you see fit. Fortunately, mine is open to alternative ideas.

Here's how I avoid colds and respiratory illnesses:

1. When I start to come down with a head cold, I devour a hot, fresh Costco rotisserie chicken, which usually stops the cold from going any further. If a fresh chicken is unavailable, I drink heated chicken bone broth (even if not as effective).
2. I take loads of supplements daily, including Vitamin D3 and C. When coming down with a cold I add two 1,000 mg capsules of astragalus (astragalus "extract," *not* astragalus "root"—thank you, Linda!) and 1,000 mg of Vitamin C every couple of hours. Some hospitals are giving intravenous Vitamin C to Virus patients, which appears to help.
3. A shot of scotch (for non-alcoholics only, please!) with the hot chicken helps. I'd love to know if this works for others or if it's just my imagination.
4. Beef bone broth works to head off bronchitis. Since the Virus is a deep respiratory disease, I wonder if it would work for that, too. I contracted bronchitis three times a few years ago and my wife, Marty, at the suggestion of her radical alternative medicine MD, suggested this. I drink it when I feel bronchitis coming on (three or four times since having the actual illnesses) and it has not turned into an actual case since. Simply amazing. Hot chicken or chicken broth does nothing for my bronchitis.

Those who know me know if I want to understand something, I seek the answers. (I'm a born researcher!) My research into the Virus leads me to conclude the lock down is the most extreme government overreach in world history and I expect the long-term consequences will be catastrophic in numerous areas of our lives. If you are interested, I'd be delighted to discuss or send reading materials. I have read close to 2,000 pages on the Virus since late January, making me more expert than most on the subject (and among the few looking at the big picture). With that in mind, here are ways I protect myself from the Virus, along with related observations:

1. In my opinion, the widespread failure to vigorously wash one's hands before touching the mucous membranes of one's face—eyes, nose and mouth—is almost exclusively responsible for spreading the Virus. This hypothesis is consistent with the fact that some viruses, like polio, spread via the fecal-oral route. Support for this idea can be found by examining the evidence regarding infection rates in nursing homes, New York City, and male vs. female death rates.
   a. Nearly half of all deaths have occurred in nursing homes, where many residents are incontinent. The general-care employees are not necessarily well trained and could be responsible for (unknowingly) spreading the virus from person to person. With minor exceptions, such as an infected person coughing and spreading droplets onto your face (which will hardly ever happen again given what we've been through), I think it's that simple: wash your hands before touching your face. In science, the simple solution often wins out, but only after the innovator has been mocked, sometimes for decades.

      A classic example of simplicity winning out with the innovator's life made miserable by the skeptics, which happens to be pertinent to the Virus, is the life's work of Hungarian physician Ignaz Semmelweis. In 1850 he told doctors, to reduce the rate of death from puerperal ("childbed") fever, wash your hands between patients. Throughout Europe, the death rate for mothers and babies at birth was 30%. Doctors screamed at Semmelweis: "The cure for such a horrific disease can't be so simple!" He founded a clinic, reduced the rate of death to half of one percent and doctors continued to deride him. Few doctors adopted his simple system until Louis Pasteur and a few other well-known scientists came along and told them, "Semmelweis was right."
   b. New York City has multitudes more elevator buttons, handrails and subway handles and straps than any other city in the U.S. An infected person touches their face, then a button or handle. You touch that same button or handle then touch your face *before washing your hands* (and gel hand sanitizers only do so much)—and bingo!—much higher infection rates.
   c. While men comprise only 49% of the population, according to some reports they make up 57-66% of deaths from the Virus. The best explanation is the observation that men are notoriously worse hand washers than women. The fact that more women than men *appear* to contract the virus may be explained by the fact that men are less likely to seek medical attention if they are infected, so are less likely to be counted in the statistics unless they die.
2. While I can't say masks do "zero" good, I think the benefit may be limited to only those actively sick with the Virus, as well as properly trained medical personnel. It stops the actively sick from spreading the disease in nasal/oral droplets but may do more harm than good because it gives a false sense of security in everyone else. Here's why.
   a. While droplets are larger, viruses are 100 to 1,000 times smaller than bacteria and penetrate any face mask other than an N95 or better.
   b. For a virus to not penetrate a mask rated N95 or better, it must be fitted properly, which hardly anyone does (even medical personnel have trouble). And, when properly fitted, you won't be able to wear one for more than an

hour or two without extreme discomfort.

c. According to recent studies in New York and the United Kingdom, non-symptomatic persons do not appear to spread the virus.

d. Even Fauci adjusted his mask with his hands several times during one interview, each time risking that his fingers or gloves touched his face (essentially rendering his mask useless).

e. A mask does nothing to protect your eyes, a key point of entry for the Virus. To truly protect, you'd need a face shield, too.

f. Consider: until about early April, the "scientists" and "doctors" told us not to wear masks. They turned on a dime. That alone should make us suspicious of both the "science" and motives.

g. Perhaps this is about control. Those aware of Stanley Milgram's experiments might consider the subject of his studies: blind obedience. I'm not a conspiracy theorist, but I have to wonder.

3. Unless you work in a nursing home, hospital, or other clinical setting, you need protection against very few infected people. The actively ill will won't be around you (and if they are, they likely are not wearing a properly fitted mask anyway). The asymptomatic won't spread the virus—unless you touch surfaces they've touched, and only if you then touch your face—eyes, nose, mouth—before you wash your hands. Therefore, the only rational and near-certain solution is to vigorously wash your hands for 15-20 seconds *before* touching your face. Every. Single. Time. The hand washing must be done WITH SOAP AND WATER (regardless of water temperature, because you can't wash your hands in water hot enough to kill the virus—the soap and friction destroy the outer coating of the virus, rendering it harmless). Only this reduces the odds of dying from the virus to less than that of driving a two-lane highway with the person coming at you turning the wheel a fraction of an inch to the left at precisely the wrong time (and yet you drive such highways, don't you?). If you have trouble with this idea, go ahead—wear a mask, for which the best use is to remind you not to touch your face—but be sure to wash your mask*, too. And if you're sick, please wear a mask if you must venture outside because at least you won't spread droplets. While tiny viruses will get through most masks, you might at least reduce the viral load, which may reduce the severity of symptoms in those you inadvertently infect.

4. From this gem written for dentists, "Why Face Masks Don't Work: A Revealing Review" **by John Hardie, BDS, MSc, PhD, FRCDC,** October 18, 2016: "It should be concluded…that the filter material of face masks does not retain or filter out [airborne] viruses or other submicron particles. When this understanding is combined with the poor fit of masks, it is readily appreciated that neither the filter performance nor the facial fit characteristics of face masks qualify them as being devices which protect against respiratory infections."

5. Those truly at-risk are the "old"—who should be protected, rather than "seeded" as New York nursing homes were with more infected patients—and the obese and diabetics. If obese or with Type 2 diabetes, everything I have read about nutrition since I first began relearning the subject seven years ago suggests you should eat a ketogenic ("keto") diet, which is high fat, *moderate* protein, low carbs (under 50 grams of carbs per day), which results in shedding pounds without trying. While the typical American consumes about 300 grams daily (accounting for the epidemic of obesity and diabetes), the Minimum Daily Requirement of carbs is nearly zero (once you use up your store of carbs, proteins and fat are converted to energy—which is why losing weight is so easy on a very-low carb diet). I went semi-keto several years ago and lost ten pounds; later, pure keto and lost another ten pounds *without trying*. Fats must be from healthy sources—fish, fowl, and (I believe, preferably grass-fed) meats and dairy—but not most (especially hydrogenated) vegetable oils, which are in nearly everything (read the labels!). The few healthy oils include olive, coconut and avocado.

The biggest problem with the lockdown has been the utter, worldwide destruction of economies. I believe the reaction to the Virus constitutes the greatest mass hysteria in world history, making witch trials appear as grains of sand compared to an ocean of hysteria surrounding us. Shutting things down and not letting the Virus run its course quickly, especially with such a low death rate in not at-risk individuals (especially children) was, I think, the most catastrophic mistake *ever*. The economic repercussions—unemployment rivalling if not exceeding the Great Depression, disincentives and malincentives to start new businesses, broken supply chains, massive numbers of bankruptcies, collapsing tax receipts, etc.—will likely reverberate for decades.

Before you say, "If we didn't have the lockdown many more people would have died, so all you care about is money!" consider what pays for our hospitals, doctors, medicine and medical innovations. If you are not working (or volunteering), you are not producing, which means less goods and services are available to everyone. And there are serious non-financial repercussions of a locked down economy—emotional depression, anxiety, spikes in domestic violence and suicides, missed cancer and heart disease diagnoses, less access to non-Virus medical care, reduced (or no) access to gyms and sports fields for exercise and recreation. I believe deaths resulting from the response to the Virus will, in the long run, be greater by an order of magnitude than those from the Virus itself.

*And wash your hands before removing your mask.

Planning to Maximize the Economic Impact (aka "Stimulus") Payment

It sounds simple enough. You get an advance refundable $1,200 economic impact payment to help you deal with the economic fallout of the lockdown response to the Virus. But what a mess it has created! Because the payment is based on 2020 income and we have no idea what 2020 income will be until 2020 has passed (bet you can't wait!), the current payment amount is based on 2019 or, if 2019 wasn't yet filed (we think by mid-April), 2018 income. If 2020 income is lower and the advance payment was partly or fully phased out, you will get the difference as a refundable credit when we file your 2020 return. If your "stimulus" payment would be less using 2020 numbers, you don't have to return the amount advanced to you.

The table below shows the income ranges based on filing status for full, partial or no credits. There is a 5% phase-out rate for those whose Adjusted Gross Income (AGI) exceeds the bottom of the "full credit" range. As you will see, this phase-out makes planning important for those who did not get a full payment and are in or near the phase-out range.

Filing Status	Full $1,200/$2,400/$500 per Child Credits for those with Incomes* up to:	Partial Phase-out of Credit for those with 2020 Incomes* over:	Zero Credit for Taxpayer with no Qualifying Children with 2020 Incomes* over
Single Adults	$75,000	$75,000	$99,000**
Heads of Household	$112,500	$112,500	$137,500**
Married Filers	$150,000	$150,000	$198,000**

* Adjusted Gross Income (AGI) for 2020 per the tax return with (incredibly) no adjustments for items such as "tax-free" municipal interest income.

** Once income hits these levels, the $500 credit per qualifying child begins to phase-out at the same 5% rate, so that each child credit is phased out over every $10,000 increase in income. For example, the credit for parents with three children phases out fully at $228,000 of AGI.

What advance "stimulus" payment should you expect now? If you're a joint filer without kids and your 2018 AGI was $180,000, while 2019 income was $150,000, but you haven't yet filed 2019, your payment will be based on 2018 AGI and ($180,000 - $150,000 = $30,000; $30,000 x .05 =) $1,500 will be *subtracted* from the maximum $2,400 payment. Therefore, you will receive ($2,400 - $1,500 =) $900 now. If you had filed your 2019 return before the cut-off date in mid-April, you would have received the full $2,400 payment. But all is not lost: if 2020 income is below the threshold you will get the extra amount *as a refundable credit* on your 2020 tax return. Let's say your 2020 AGI is $160,000. You will receive an additional ($160,000 - $150,000 = $10,000 x .05 = $500 phase-out amount; $2,400 maximum - $500 phased out = $1,900 total credit; $1,900 - $900 already paid =) $1,000 credit on your 2020 return. If your 2020 income is $150,000 or less, you will receive the full additional ($2,400 - $900 already paid =) $1,500 as a refundable credit on your 2020 return.

	Tax Year		
	2018	**2019**	**2020**
AGI	$180,000	$150,000	$160,000
Phase-out of "stimulus"	($180,000—$150,000) x 0.05 = **$1,500**	Filed after mid-April 2020, so none	($160,000—$150,000) x 0.05 = **$500**
Advance payment paid in April 2020	($2,400—$1,500 =) **$900**	Filed after mid-April 2020, so none	
"Stimulus" credited on 2020 return			($2,400—$900—$500 =) **$1,000**

If your 2020 income is $198,000 or higher, you will not qualify for an additional credit on the 2020 return—but the IRS will not claw back the $900 they already paid you. (Yup! You could have gamed the system by trying to ensure the IRS used the return with the lower income, but it's too late for that.)

If you have teenage or college-aged kids or you divorce prior to December 31, 2020, things get more complicated. Kids *under* age 17 in 2020 qualify you for up to an additional $500 "stimulus" payment per child. If a dependent child turns 17 prior to December 31, 2020, you do not qualify for the extra $500—but if you already received an advance payment for a dependent who was under 17 in 2018 or 2019, you keep the extra money! If you divorce in 2019 or 2020 and the IRS used the 2018 return, they will compare 2020 returns with the 2018 tax return and give an additional credit if you qualify for one.

Dependent children do not qualify if over age 16 in 2020. Because a dependent child over 16 qualifies the parent for a regular "other dependent" credit worth only $500, there will no doubt be many questionable "disclaims" by parents, with kids who "should" be claimed by parents not claimed, so the young person gets the full $1,200 payment. Because the dependency rules are mostly black and white, we will discourage and not participate in such tactics unless we have a strong leg to stand on (i.e., the non-dependent "child" must provide over one-half of his or her total support).

Tax Planning Opportunities for Those in the Phase-Out Range

If you already received a maximum payment, you're good; the government won't claw it back if 2020 income increases into or above the phase-out range. But if your advanced payment was partially or totally phased-out and 2020 income is expected to be a tad above the threshold or inside the phase-in/phase-out range, there are opportunities to maximize the credit. In typical years, about 20% of you fall into or are a bit above these phase-out ranges. Strategizing and planning now can help increase that "stimulus" payment!

The basic strategy requires a reduction in Adjusted Gross Income. Being unemployed is currently an all-too common but lousy way to increase the payment. Keep in mind that unemployment "benefits" received from state and federal programs count towards federal income; be mindful how this affects overall income to help ensure your credit isn't reduced or eliminated.

A better strategy is to proactively reduce income by increasing pre-tax retirement plan contributions, such as 401ks, 403bs and making appropriate use of business and self-employed retirement plans like SEPs, 401ks and profit-sharing plans. Small business owners and the self-employed can engage in other planning as well, such as accelerating equipment purchases into 2020, including purchases of business-use vehicles (which can provide huge first-year deductions). Many other expenses can be accelerated into the current year. But take care, however, as there all manner of tricks and traps relating to the sale or "trade-in" of old business-use vehicles and the later disposition of new purchases.

Planning for those of you in or slightly above the phase-out ranges is crucial because of the increased marginal tax rates created because of the phase-out of the "stimulus." Your marginal tax rate isn't the "advertised" 22% or 24% rate; it's (22 + 5 =) 27% or (24 + 5 =) 29% due to the effective 5% add-on rate.* Those living in most states can add an additional 3% to 9.3% (California's maximum marginal rate for most taxpayers). For example, if you are in the 22% marginal bracket and in the phase-out range, an extra $10,000 of income costs $500 more in tax than the tax tables let on. So, careful planning and preparation is vital.

When Will Economic Impact Payments be Mailed?

If the IRS has your direct deposit information, you should have received payment by now.

For the rest of you, the IRS is issuing paper checks (and debit cards in Texas and nearby states) on a weekly basis based on 2018 or 2019 AGI in $10,000 increments. Unless you filed 2019 early, AGI from 2018 will be used. This list tells you when you can expect to receive your payment (you may receive your payment earlier, as they appear to be well ahead of schedule):

If the IRS has your direct deposit information on file or your AGI was $80,000 or less: should have been received.

- Paper checks for those with up to $90,000 AGI: the week ending June 19.
- Between $90,000 AGI and $100,000 AGI: the week ending June 26.
- Between $100,000 AGI and $110,000 AGI: the week ending July 3.
- Between $110,000 AGI and $120,000 AGI: the week ending July 10.
- Between $120,000 AGI and $130,000 AGI: the week ending July 17.
- Between $130,000 AGI and $140,000 AGI: the week ending July 24.
- Between $140,000 AGI and $150,000 AGI: the week ending July 31.
- Between $150,000 AGI and $160,000 AGI: the week ending Aug. 7.
- Between $160,000 AGI and $170,000 AGI: the week ending Aug. 14.
- Between $170,000 AGI and $180,000 AGI: the week ending Aug. 21.
- Between $180,000 AGI and $190,000 AGI: the week ending Aug. 28.
- Between $190,000 AGI and $198,000 AGI: the week ending Sept. 4.
- All other checks (i.e., those for whom the IRS does not have tax info on file (non-filers and late filers), who are believed by the IRS to have incomes in the allowable range: the week ending Sept. 11.

* The phase-out of another credit, the American Opportunity Credit, results in an additional 12.5% marginal federal tax bracket between $160,000 and $180,000 of joint filers' AGI, for a potential total marginal tax rate of 50%+ federal/CA state.