Farmers Trust Company

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Investors Remain Dubious Despite Market

The stock market is having a banner year in 2019 with the benchmark S&P 500 index having returned more than 25% since the end of last year. Last week delivered more good news with progress on trade with China and a further commitment from the Federal Reserve to keep interest rates low unless and until we see a significant and sustained rise in inflation. In fact, we are beginning to see some nascent inflationary pressures starting to show up in commodity prices among other pockets of the economy. Nevertheless, it will likely be quite some time before the central bank is really forced to make a difficult decision between fighting inflation and keeping asset prices – er, the economy – afloat. Despite all the seemingly good news and the impressive strength of the equity markets, many investors have been sitting on large cash balances and have yet to fully embrace stocks during this market cycle.

While equity prices have been steadily rising, investors have been plowing cash into bond funds and money markets. Meanwhile, cash has been leaving stock funds. So far this year, more than $200 billion has exited equity mutual funds and exchange traded funds (ETFs) while more than $300 billion has flowed into bond mutual funds and ETFs. Money market cash levels recently hit $3.4 trillion, which is near the highest level since March 2009. Clearly, investors are far from euphoric, and there is ample liquidity available to continue to push stocks higher in the coming months.

Even as the market indexes like the S&P 500 may continue to move higher in the near-term, there are likely to be winners and losers among the various sub-asset classes. Within equities, as economic growth continues to slow amid building inflationary pressures, it makes sense to favor the Energy, Real Estate, and Utilities sectors. This environment could prove difficult for the Consumer Staples, Financials, and Industrials sectors. In fixed income, there is a lot of risk for a very modest reward in the high-yield (junk) bond market. You can protect yourself from both credit risk and inflation risk by owning Treasury Inflation-Protected Securities.

From everyone at Farmers Trust Company, we wish you a Merry Christmas and Happy Holiday Season, as well as a Happy and Prosperous New Year in 2020.

Farmers Trust Company December 2019 Newsletter

Estate Planning: Consider the Tax Basis of Gifted or Inherited Property

Take This Quiz: The Social Security Retirement Earnings Test

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Estate Planning: Consider the Tax Basis of Gifted or Inherited Property

An asset's tax basis can be important when deciding whether to make gifts now or transfer property at your death. When you make a gift of property during your lifetime, the recipient generally receives your basis in the property. When you transfer property at your death, the recipient generally receives a basis equal to the fair market value of the property as of the date of your death. The difference can substantially affect the amount of taxable gain when the recipient sells the property.

Tax basis can be important when deciding whether to make gifts now or transfer property at your death. This is because the tax basis of the person receiving the property depends on whether the transfer is by gift or at death. This, in turn, affects the amount of taxable gain subject to income tax when the person sells the property.

What is tax basis?

The tax basis of an asset is used when determining whether you have recognized a capital gain or loss on the sale of property for income tax purposes. (Gain or loss on the sale of property equals the difference between your adjusted tax basis and the amount you realize upon the sale of the property.) When you purchase property, your basis is generally equal to the purchase price. However, there may be some adjustments made to basis.

What is the tax basis for property you receive as a gift?

When you receive a gift, you generally take the donor's basis in the property. (This is often referred to as a "carryover" or "transferred" basis.) The carryover basis is increased — but not above fair market value (FMV) — by any gift tax paid that is attributable to appreciation in value of the gift. (Appreciation is equal to the excess of FMV over the donor's basis in the gift immediately before the gift.) However, for the purpose of determining loss on a subsequent sale, the carryover basis cannot exceed the FMV of the property at the time of the gift.

Example: *Say your father gives you stock worth $1,000 and the gift incurs no gift tax. He purchased the stock for $500. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is $500. If you sold the stock for $1,000, you would have gain of $500 ($1,000 received minus $500 basis).*

Now assume that the stock is only worth $200 at the time of the gift and you sell it for $200. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is still $500, but your basis for determining loss is $200. You do not pay tax on the sale of the stock. You do not recognize a loss either. In this case, it would have been better if your father had sold the stock (and recognized the loss of $300 — his basis of $500 minus $200 received) and then transferred the sales proceeds to you as a gift.

What is the tax basis for property you inherit?

When you inherit property, you generally receive an initial basis in property equal to the property's FMV. The FMV is established on the date of death or on an alternate valuation date six months after death. This is often referred to as a "stepped-up" basis, since basis is typically stepped up to FMV. However, basis can also be "stepped down" to FMV.

Example: *Say your mother leaves you stock worth $1,000 at her death. She purchased the stock for $500. Your basis in the stock is a stepped-up basis of $1,000. If you sold the stock for $1,000, you would have no gain ($1,000 received minus $1,000 basis).*

Now assume that the stock is only worth $200 at the time of your mother's death. Your basis in the stock is a stepped-down basis of $200. If you sold the stock for more than $200, you would have gain.

Make gift now or transfer at death?

As the following example shows, tax basis can be important when deciding whether to make gifts now or transfer property at your death.

Example: *You purchased land for $25,000. It is now worth $250,000. You give the property to your child (assume the gift incurs no gift tax), who then has a tax basis of $25,000. If your child sells the land for $250,000, your child would have taxable gain of $225,000 ($250,000 sales proceeds minus $25,000 basis).*

If instead you kept the land and transferred it to your child at your death when the land is worth $250,000, your child would have a tax basis of $250,000. If your child sells the land for $250,000, your child would have no taxable gain ($250,000 sales proceeds minus $250,000 basis).

In addition to tax basis, you might consider the following questions:

- Will making gifts reduce your combined gift and estate taxes? For example, future appreciation on gifted property is removed from your gross estate for federal estate tax purposes.
- Does the recipient need a gift now or can it wait? How long would a recipient have to wait until your death?
- What are the marginal income tax rates of you and the recipient?
- Do you have other property or cash that you could give?
- Can you afford to make a gift now?

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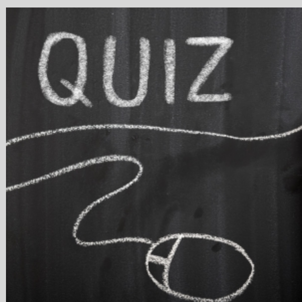
Take This Quiz: The Social Security Retirement Earnings Test



This quiz covers only some basic rules. For more information about other retirement earnings test rules, visit the Social Security Administration website, [ssa.gov.](ssa.gov)

Can you work and receive Social Security retirement benefits at the same time? Yes, but the Social Security Administration (SSA) will apply an earnings test. Part or all of your monthly benefit may be withheld if you earn too much.

To help avoid surprises, take this quiz to find out what you know — and don't know — about Social Security earnings test rules.

Questions

1. The retirement earnings test applies only if you are receiving Social Security benefits and are...

a. Under age 62

b. Under full retirement age

c. Full retirement age or older

d. Age 70 or older

2. Which of the following types of income count toward the earnings test?

a. Wages earned as an employee and net self-employment income

b. Pension and retirement plan income

c. Interest and dividends

d. Both a and b

e. All of the above

3. Benefits that are withheld are lost forever.

a. True

b. False

4. The earnings test may affect family members who are receiving which types of benefits?

a. Disability benefits

b. Spousal benefits

c. Dependent benefits

d. Both b and c

5. What special rule applies to earnings for one year, usually the first year you claim Social Security retirement benefits?

a. A monthly earnings limit applies to any earnings after you claim retirement benefits.

b. Earnings during the first year after you claim retirement benefits can't be counted if you retired after 40 years of continuous employment.

c. Earnings during the first year after you claim retirement benefits will not reduce your Social Security benefit if you retired from a government job.

Answers

1. b. If you have not yet reached full retirement age (66 to 67, depending on your year of birth), your Social Security retirement benefit may be reduced if you earn more than a certain annual amount.

In 2020, $1 in benefits will be deducted for every $2 you earn above $18,240. In the calendar year in which you reach your full retirement age, a higher limit applies. In 2020, $1 in benefits will be deducted for every $3 you earn above $48,600. Once you reach full retirement age, your earnings will not affect your Social Security benefit.

The SSA may withhold benefits as soon as it determines that your earnings are on track to surpass the annual limit. The estimated amount will typically be deducted from your monthly benefit in full, so you might not receive benefits for one or more months before they resume.

2. a. Only earned income, such as wages from an employer and net self-employment income, count toward the earnings limit. Unearned income — such as other government benefits, investment earnings, interest, pension and retirement plan distributions, annuities, and capital gains — doesn't count.

3. b. Benefits that are withheld are not really lost. Your benefit will be recalculated at full retirement age to account for the months benefits were withheld. You'll receive the higher benefit for the rest of your life, so assuming you live long enough, you'll eventually recoup the total amount you previously "lost."

4. d. Benefits paid to family members (such as your spouse or dependent children) based on your earnings record may also be reduced if you're subject to the earnings test. The earnings test does not apply to disability insurance benefits.

5. a. Many people retire mid-year and have already earned more than the earnings limit. So in the first year you claim retirement benefits, a monthly earnings test may apply, regardless of your annual earnings.

For example, let's say that you claim benefits at age 62 on September 30, 2020 and have already earned more than the 2020 earnings limit of $18,240. Then, you take a part-time job that pays you $1,000 per month for the rest of the year. You'll still receive a Social Security benefit for October, November, and December because your earnings are less than $1,520, the monthly limit that applies in 2020.

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What can I do with old or unwanted gift cards?

If you're holding on to old or unwanted gift cards, consider the many ways you can help ensure they don't go to waste.

Sell them. Search online for sites that allow you to exchange or sell your gift cards. You may wind up having to pay a small fee to complete the transaction, but at least you can trade in your unwanted gift card for one that you will actually use.

Donate them. Donating unused gift cards can be a great way to contribute to your favorite nonprofits. Plus, your donation may be tax deductible.

Reuse them. Before you throw away any gift cards you might have that carry a low or zero balance, check to see whether it's possible for you to add value back on to them. Many retailers offer customers the ability to reload store-issued gift cards in exchange for rewards and/or discounts.

Gift them to someone else. Did you receive a gift card for a store you dislike or where you never shop? Simply regift it to someone else who may actually shop there. You'll please the gift card recipient as well as save yourself from having to spend money on a future gift for that individual.

Return them. Have realistic expectations before initiating a return: Some retailers might not exchange the full value of the card for cash. You may be refunded only a percentage of the face value of the card, or you could end up receiving an in-store credit (which won't do you much good if you don't shop at the store in the first place). Other retailers might even refuse to accept a gift card return unless you have the purchase receipt. As a result, check the return policy of a gift card's issuer before attempting to return it.

Upcycle them. Most gift cards are made of a plastic called polyvinyl chloride (PVC). This particular type of material is recyclable, but few curbside programs are able to accept this form of plastic because it may contaminate other recyclables in a given batch. You can still do your part to reduce waste, though, by upcycling your empty gift cards. Find creative project ideas online that can help you transform your old gift cards into something useful.

PROTECTING YOURSELF AGAINST IDENTITY THEFT

Be Vigilant

- Check your credit report at least once a year for errors
- Periodically review your bank and debit/credit card accounts for suspicious charges/activity

Consider a Fraud Alert or Credit Freeze If Necessary

- A fraud alert requires creditors to take extra steps to verify your identity before extending any existing credit or issuing new credit in your name
- A credit freeze prevents new credit and accounts from being opened in your name

Stay One Step Ahead

- Maintain strong passwords or consider using a password manager
- Consider using two-step authentication when available
- Minimize information sharing and be wary of requests for personal information, whether received in an email, letter, or phone call
- Beware of scam websites and only use secure connections when shopping online

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