

# TRUST ARTICLES



## Ask a Trust Officer: Falling Interest Rates

### DEAR TRUST OFFICER:

When the Fed cut interest rates at the end of July, the stock indices fell. I thought lower interest rates were good for stock prices? What's going on? Should I be worried about my portfolio?

—WORRIED INVESTOR

### DEAR WORRIED:

Two factors seem to have been at work to produce this unexpected result. Some market watchers apparently had hoped for a half point rate cut, and were disappointed when it was only a quarter point. Then the comments of Fed Chairman Jerome Powell explaining the Fed's thinking were evidently unexpected, as he warned that there may not be additional rate cuts this year.

Some observers wondered why the Fed lowered rates at all, given the current low unemployment, strong economy, and record stock prices. There is some uncertainty, however, about the effect that the tariffs will have on global trade, as well as uncertainty about the effects of Brexit now that Britain's Prime Minister has pledged to leave the EU with or without an agreement. The rate cut now is seen as "insurance" against a future downturn in the global economy.

Although these factors do not seem to be a cause for immediate worry, eternal vigilance is the price of successful portfolio management. To be truly worry free, consider outsourcing your portfolio management to us. This is a service we provide on a full time basis. Give me a call to learn more.

Do you have a question concerning wealth management or trusts? Send your inquiry to [trust@countryclubtrust.com](mailto:trust@countryclubtrust.com)

## The IRS Launches a Cryptocurrency Crackdown

In 2014 the IRS made clear that bitcoin and similar cryptocurrencies are not money for tax purposes; they are property. As such, they have a tax basis, and the transfer of cryptocurrency for value may generate taxable gain or loss. It's not clear that the cryptocurrency owners have been complying with the tax laws.

The IRS obtained a court order for the customer data held by Coinbase, a cryptocurrency exchange. Data was provided on all customers who had transactions worth \$20,000 or more from 2013 through 2015. About 13,000 customer accounts were documented.

That data may have been the source for a series of warning letters that the IRS began sending to some 10,000 cryptocurrency owners in July. Three versions of the letter were made public. The mildest one outlines the tax requirements for owning and exchanging cryptocurrency. The most severe asks the recipients to declare under penalty of perjury that they are in compliance with all tax law requirements.

IRS Commissioner Chuck Rettig said, "Taxpayers should take these letters very seriously. The IRS is expanding efforts involving virtual currency."

## How to Avoid Early Withdrawal Penalties

To increase the likelihood that tax-preferred savings actually will be used for retirement, Congress included a 10% penalty tax on IRA and 401(k) distributions before the account owner reaches age 59½. The penalty applies in addition to the regular income tax on the distribution. For example, someone in the 15% tax bracket who takes a \$10,000 premature distribution would owe \$1,500 in ordinary tax and \$1,000 as an early withdrawal penalty, leaving just \$7,500 in after-tax proceeds.

Fortunately, there are exceptions that allow some taxpayers to dodge the penalty (but not the ordinary income tax).

**Series of substantially equal periodic payments.** A series of payments for the life of the taxpayer or for the joint lives of a taxpayer and a designated beneficiary will avoid the penalty. The payment stream may begin at any age. However, if the payout terms are modified within the later of five years of inception or the taxpayer reaching age 59½, the penalty will be applied, plus interest, to all the taxable amounts received. An addition to the account balance is considered a modification for this purpose.

**Separation from service.** A taxpayer who separates from service and is at least 55 years old will not owe a penalty on amounts received from the employer's retirement plans. This provision does not apply to IRAs.

**Disability.** If one is no longer able to work, the 10% penalty won't apply to retirement plan distributions. However, if the taxpayer is able to engage in any gainful activity, even though diminished, he or she is not considered disabled for purposes of this provision.

**Medical expenses.** To the extent that the retirement distributions are used to pay deductible medical expenses the penalty is avoided. However, the deduction for medical expenses is limited to amounts in excess of 10% of adjusted gross income.

**Medical insurance premiums.** Unemployed taxpayers may use retirement plan money to pay for their health insurance without penalty.

**Qualified higher education expenses.** College costs for the taxpayer, the spouse, or their children or grandchildren may be paid penalty free from retirement accounts. Such costs include tuition, fees, books, supplies, and equipment. If the student has at least half of a normal full-time course load, reasonable costs for room and board also may be paid.

**First-time homebuyers.** Up to \$10,000 may be withdrawn without penalty for the purchase of a principal residence.

**Qualified Domestic Relations Orders (QDRO).** Transfers incident to divorce generally won't be penalized.

Other exceptions to the penalty rule include active duty military, ESOP dividends, and distributions due to a tax levy. This is a complicated area of the tax law, so taxpayers should seek professional counsel before making any distribution decisions.

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