Gerstein's
BROOKLYN TAX SERVICE

February 2024 www.gersteintaxservice.com (718) 499-8352

What To Know About Converting To Roth IRAs

The federal debt is projected to increase to 110% of the size of the economy by2032 — higher than it's ever been. In the following two decades through 2052, growing deficits are projected to push the federal debt much higher still, to nearly twice the size of gross domestic product. Based on these projections from the nonpartisan Congressional Budget Office, it's fair to say the interest owed on the federal debt skyrockets and becomes unsustainable by 2052.

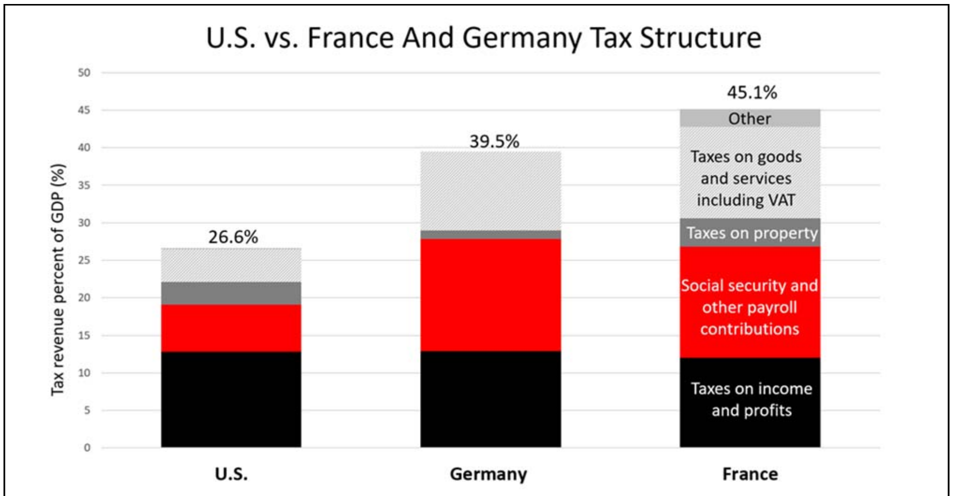
No one can predict the future, but it seems likely the federal government will need to hike income tax rates in the U.S. in the years ahead to avert going over a fiscal cliff. As a result, converting assets to Roth IRAs is a compelling retirement tax move to consider for the 2023 tax year.

Converting assets from traditional IRAs to Roth IRA accounts could allow you to pay income tax at today's presumably lower rates instead of the higher tax rates likely to apply in the years ahead, and it would also set you up for tax-free withdrawals later in life.

Tax rates in the U.S. are low relative to large, developed economies, like Germany and France, according to the Organization for Economic Cooperation and Development, an alliance of advanced economies. If you believe a tax rate hike is likely, it's wise to consider converting assets now held in traditional IRAs to Roth IRAs.

Conversions from traditional IRAs to Roth IRAs involve selling assets in a traditional IRA and paying income tax on the withdrawn amount and then investing the proceeds in a Roth IRA, which is not subject to income tax annually or upon withdrawal.

Traditional IRAs are not taxed until you withdraw the money in retirement. At age 73, you are required to start taking distributions, with minimum required distributions set by actuarial estimates of how many years you are



Source: OECD Revenue Statistics 2022, published November 30, 2022. Data for 2021.

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New Regulations for Small Business Owners

For many, starting a new business is the American Dream come to life. One benefit out of many is that business owners can establish their own 401(k)s or other retirement plans for themselves and if they wish, their employees. The choices open to owners are many, though some require extra caution (see our article inside on Self-Directed IRAs).

And now, for the 2023 tax year, small businesses are eligible for a credit on 100% of the cost of starting a qualified defined-contribution retirement plan for their employees—up from 50% in 2022. But establishing a company retirement plan imposes risks and responsibilities; owners should always work with a seasoned financial and tax professional.

Ditto for a new requirement this year that owners and beneficial owners of corporations, most limited partnerships, business trusts, and other entities registered to do business in the U.S. must meet: sending information spelled out in the Corporate Transparency Act to a branch of the Treasury Department. The Act is designed to combat financial fraud and keep track of owners with significant ownership stake in a company, especially in small businesses.

The information asked for is not extensive, and there are exemptions—such as for sole proprietorships . But failure to provide what is required can result in hefty fines. The deadline? For businesses in existence before 2024, it's by January 1, 2025. New businesses established after 2023 have 90 days after their formation.

You can file on BOI E-FILING (fincen.gov)—but we urge you to consult us first. As always, government requirements are complicated, and we're here to help you!

Warm regards,
The Gerstein's Brooklyn Tax Service Team

Test Your Financial Planning IQ

The seven questions below are a challenge and an nay help you to assess your knowledge of financial and investment planning. If you read this newsletter regularly, this quiz draws on familiar ground covered here quarterly. The answers are at the end, along with additional resources and documentation related to the answers.

1. The Federal Reserve:
a. meets monthly
b. Chair is Ben Bernanke
c. is not part of the U.S. Government
d. all of the above
e. none of the above

2. The U.S. national debt:
a. is about as large as the total U.S. gross domestic product (GDP)
b. is projected to double as a percentage of annual GDP by2053
c. could be managed by increasing tax revenue about 2% annually
d. all of the above
e. none of the above

3. Under existing federal law, the estate tax exemption:
a. will be slashed from $12.92 million to $6.2 million after 2025
b. reverts to the exemption amount allowed in 2016
c. sunsets rules in the 2017 Tax Cuts & Jobs Act
d. all of the above
e. none of the above

4. What's true?
a. for every job seeker, there are more than 1.5 job openings
b. the yield curve has signaled a recession since December 2022
c. the U.S. index of Leading Economic Indicators has declined for over 14 consecutive months
d. all of the above
e. none of the above

5. What is form SS-4 used for during an estate administration?
a. to inform the Internal Revenue Service (IRS) of a death
b. to apply for an EIN for the estate, which banks and brokerages require
c. to notify the IRS of a fiduciary relationship
d. to help the executor avoid personal liability for the decedent's tax liabilities

6. What is NOT true about the decedent's final medical expenses?
a. they are often large enough to overcome the 7.5% "floor"
b. they are often larger than the standard deduction
c. the deduction is allocated to the 1040 or 1041 based on the day the expense was paid; i.e. cash basis accounting
d. medical expenses paid within one year of death can be reported on a decedent's 1040 using the date the expense was incurred

7. What's true?
a. jobs with a high level of exposure to AI tend to be in lower-paying fields where a college education and analytical skills don't matter
b. in early 2021, 7% of U.S. adults said they use Twitter.
c. 92% of Black adults in the U.S. say they do not have enough income to lead the kind of life they want
d. all of the above
e. none of the above

* Sources: Answers 1- 4, Advisors4Advisors; U.S. Federal Reserve data; question 5 source is Pew Research Center, July 2023.

Answers: 1.e 2.d 3.c 4.d 5.b .6.c 7.e

What You Need To Know Before Investing In A Self-Directed IRA

Self-directed Individual Retirement Accounts (IRAs) are at greater risk of fraud than other types of retirement accounts. Here's what's important to know before investing in a self-directed IRA:

With more than $30 trillion currently held in company-sponsored retirement plans, self-directed IRAs are a way for peddlers of high-risk, high-expense investments and outright frauds to lure investors.

A self-directed IRA is an account that taps assets in a company-sponsored 401(k), 403(b) or other federally qualified retirement plan (QRP) to enable an investment not offered as part of a company retirement plan.

QRPs often do not allow employees to invest in alternative assets, such as real estate, gold bullion, privately-held companies or partnerships, and cryptocurrency because these investments are less liquid than publicly-traded stocks and bonds. However, most company retirement plans will allow an employee to create a self-directed account to hold


Celebrities Who Endorsed Crypto Investments

these assets.

Although self-directed IRAs have been offered as an option in employer-sponsored retirement plans for decades, a confluence of recent events recently made Americans more susceptible to

Office-Space Reckoning Expected In 2024

Office-space delinquencies tripled in the first six months of 2023, and landlords and investors in office space through mutual funds, retirement plans, and other packaged products face a tough period ahead. Delinquencies on office-space mortgages averaged 10 times the rateof five other subcategories of commercial real estate (CRE).

Lodging, second-worst of the five segments, in the first six months of 2023, experienced a 1.41% delinquency rate. That's bad, but less than half the 3.1% delinquency rate on office-space mortgages. Comparatively, multifamily homes, industrial production, and retail CRE delinquencies were fractional.

Post-Covid America needs much less office space. With 46% of office-space mortgage loans maturing between 2023 and 2025, the cost of a mortgage post-pandemic has soared as banks tightened loan standards, putting more financial pressure on landlords and investors at a tough time.

Smaller Banks (Total Assets $100M–$10B) Have the Highest Exposure to Commercial Real Estate and Office Markets

Bank Size	# of Banks	CRE as a % of Total Assets	Office as a % of Total Assets
25 largest, $160 B+	25	4.3%	0.5%
$10 B - $160 B	135	16.2%	2.0%
$1 B - $10 B	**829**	**24.3%**	**3.2%**
$100 M - $1 B	**2,965**	**18.3%**	**2.6%**
< $100 M	761	7.2%	1.1%
Total / Average	*4,715*	*9.3%*	*1.2%*

Source: FDIC, Cohen & Steers, The Conference Board, 2023

These are some of the key observations of Erin McLaughlin, an expert on office-space and commercial real estate and senior economist at The Conference Board (TCB). "We've had a cultural shift in how people work," she said in an October 11 briefing for corporate leaders of many of the world's largest companies. Ms. McLaughlin painted a grim outlook for the office-space segment of CRE.

Background: Office-space accounts for 18% of the total value of U.S. CRE. Office-space generally is mortgaged in variable-rate loans with five- to 10-year terms. The rise in lending rates that began in March 2021 is now impacting many more office-space landlords and CRE investors, at the same time they are facing tougher lending standards. Recapitalizing now is much harder and more expensive.

Converting office-space into residential apartments is challenging. While it sounds like a great idea, TCB's economics team says windows, plumbing, and HVAC systems make it too expensive about 90% of the time. Only about 10% of U.S. office space can be converted to residences profitably.

A flight to quality is likely. Companies will be seeking high-end office space to motivate workers to show up. "If you're leasing 30,000 square feet of office space, you may decrease the size but increase amenities." Expect a flight to the best addresses downtown, the ones with rooftop facilities, pickleball courts, and scenic panoramic views.

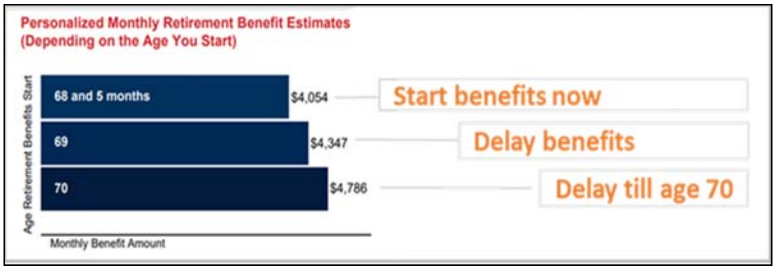
Small and regional bank exposure: The 25 largest U.S. banks have 4% of their assets in CRE loans, while small and regional banks have about 20-25% of their assets invested in CRE. Bank of Ozarks, for example, is located in Arkansas but heavily invested in New York City office space. Warning of a second leg of the banking crisis experienced in March 2023, TCB members, senior executives from prominent companies, were warned about the possibility of a second wave of smaller bank failures similar to those in March 2023. They were told that certain banks may face difficulties, presenting an opportunity for larger banks to acquire troubled smaller banks for their own benefit. ●

falling for schemes involving self-directed IRAs:

- Forty percent of Americans aged 60 to 64 are at risk of experiencing a retirement shortfall, according to the Employee Benefit Research Institute, and fewer than one-third of American workers feel very confident about their ability to afford a comfortable retirement. With pressure to accelerate saving as workers approach retirement age, speculative investments of self-directed accounts are more attractive.
- Social media allows social influencers to conspire to pump up prices and secretly dump their holdings to unsuspecting social network followers.
- Hollywood stars, professional athletes, and other celebrities, including social influencer Kim Kardashian, retired quarterback Tom Brady, and actor Matt Damon, endorsed cryptocurrencies and helped create a speculative bubble by giving ill-fated cryptocurrencies legitimacy. Celebrity — not knowledge and experience in the investment profession — can drive prices in assets with no intrinsic value.

Before opening a self-directed IRA to invest off the grid provided by your company-sponsored plan, it's wise to consult a real financial professional. ●

Have You Logged Into Social Security?



Creating an online account at SSA.gov is an important first step in understanding your retirement income situation. However, only about 60 million of the 160 million individuals in the labor force withSocial Security accounts have signed up for online access.

At SSA.gov/my account, it's easy to create an account, even if you have no patience for online machinations. Logging in allows you to see how much you've paid into Social Security every year since you first began working. Checking the accuracy of your earnings report is essential because it ultimately determines the amount of your benefits.

You need to choose from three methods to create a username and password to log in to your account. Logging in using Login.gov, for instance, is simple: Check a box to accept the terms of use and verify your email address by clicking a link that's emailed to you. Fill in your Social Security number, address, and phone number. Then verify your contact information by responding to an email and text message.

For an added layer of security, download an authentication application to your smartphone using the iPhone app store or Google Play. Google's Authenticator is free and it generates secure, six-digit codes that you use each time you sign into your account.

Once you've set up your account, you can download your Social Security benefit statement and your Primary Insurance Amount (PIA). Social Security benefits are calculated based on your highest 35 calendar years of earned income.

Your PIA is the benefit you would receive if you elected to begin receiving retirement benefits at your normal retirement age, which is generally between age 65 and 67 for most individuals. On the home page of your personal Social Security account, you can review your Social Security statement. Your statement shows an estimate of the benefit you will receive monthlyas well as the maximum benefit you and your spouse are eligible to receive.

A blue bar chart on your statement shows the benefit you'd get if you started collecting retirement benefits immediately. The bottom bar shows your benefit amount if you delay taking benefits as long as possible by waiting until age 70. The middle bar shows the impact of waiting to take benefits between now and age 70.

Page 2 of your Social Security statement includes a table summarizing your earnings history. For a full earnings history report, scroll down on your personal Social Security account home page.

Creating an online Social Security account is a good starting point in retirement planning, particularly since you're paying for the government to provide this service. ●

ConvertingTo Roth IRAs

(Continued from page 1)

expected to live.

In contrast, Roth IRAs have no required minimum distributions. Thus, they can continue to benefit from tax-free compounded growth after you're 73. In addition, unlike traditional IRAs, withdrawals from Roth IRAs are tax-free. Plus, your children and other beneficiaries of Roth IRAs have the option to spread their inheritance in equal installments over as long as 10 years, giving the inherited Roth IRA additional time to compound tax-free, subject to certain conditions.

With stock prices and the economy much stronger than expected for many months, this is a good time to consider converting assets to Roth IRA accounts. But don't wait too long.

Planning to take a distribution from a traditional IRA, pay tax on the income withdrawn, and use the amount withdrawn to fund a Roth IRA is a fairly straightforward process, but it can easily take two or three weeks. So doing so before year end is prudent.

The process involves calculating the right amount to convert without pushing you into a higher tax bracket and paperwork must be completed and submitted to your IRA custodian. Plus, the new Roth IRA account will need to specify your beneficiaries.

Keep in mind, to qualify for a tax-free withdrawal of the earnings, you must own a Roth IRA five years and it must be made on or after you turn age 59½, or in the event of a qualifying disability, your death, or the use of the proceeds to buy a home for the first time. You can make tax-free withdrawals from a Roth IRA before the age of 59 ½, as long as the amount you withdraw does not exceed your contributions to the account. State income tax treatment of Roth IRAs also must be planned.

A number of factors should be considered before converting, including whether paying taxes on the withdrawal today outweighs the benefit of income tax-free distributions in the future. This is an area of financial planning where consulting with tax and legal advisors about your personal situation can pay off; and you may decide to begin a multi-year strategic plan to lock in tax-free income for retirement. ●