How President Biden's Tax Plan Could Affect Retirement Planning

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello everybody. And welcome back to keen on retirement. I'm your cohost, Steve Sanduski. And with me as always is Bill keen and Matt Wilson. Hey guys, how are things going?

Bill Keen: We're doing good here in Kansas City. Steve it's springtime and the Royals have fans in the stadium in Kansas City.

Steve Sanduski: All right. Well, that is good news to hear, for sure. Things are warming up. Trees are starting to bud, early flowers are coming up. so things are getting somewhat back to normal.

Bill Keen: Well, I would say so it sure is nice seeing real people in the stands out there and not cardboard cutouts. So

I think we're off to a good start for the year. And actually the Royals are off to a good start as well. So we have some promise maybe coming up this year. we'll see.

Steve Sanduski: Well, certainly Kansas City has become a real sports town between the Royals and the Chiefs. You got a lot of good, good sports going on there.

Bill Keen: That's right. And, you know, we have a lot of listeners that aren't necessarily in the Kansas City area all over the country. So I hope you'll excuse us. While we talk about our hometown favorites here in Kansas City.

Steve Sanduski: Well, Hey, we've got another great episode lined up here and we're going to talk about one of everybody's favorite topics and yes, I'm talking about taxes and it's pretty clear that taxes are going to be changing. And it looks like they're going to be rising in certain areas. Now there might be some places where taxes are going to go down too, but yeah, we've got a number of things that we want to talk about here in some things that we want to share.

So Matt, lead us off here and set the stage for what's going on with taxes.

Matt Wilson: Yeah. We've been getting a, a lot of questions around the new administration and the proposals around new taxes. And so we thought, you know, it'd be helpful to kind of go through here's what hearing, here's, what's being discussed and kind of put some color around those because you know, for us, it's all about.

How do we put a long-term financial plan in place, but then make adjustments as necessary. And, you know, tax changes is definitely one of those scenarios where we definitely want to be paying attention to the plan and making adjustments when, when it makes sense.

Bill Keen: Heck, we're not even through with this year's tax season yet. And we're already seeing some real focus on preparing for what's next

Matt Wilson: That's right. Many of these things, depending on the timing there could be a lot of tax moves this year because if these new tax proposals go into effect beginning January, 2022, yeah, we want to make sure, okay, well, under the old rules, this is what it was. Let's make sure we take advantage of it because if we wait, it may not be as good for us That's right.

Steve Sanduski: Yeah, we like to say it's better to prepare than repair. And so let's dig in. So what are some of the tax changes that are being contemplated here?

Matt Wilson: There's been a lot that's happened in the first four months, especially with President Biden, you know, he made some significant economic changes with the extensive of the COVID-19 relief bill. And now they're talking about. All the other changes they've been mentioning during their, their campaign you know, some of these tax changes could, could impact retirees.

So, you know, what it makes sense to do is look at how do we take advantage of the current low rates and where does Roth conversions and Roth IRAs and a tax loss, harvesting, and, and potentially harvesting capital gains. No, that's not something we've really mentioned before, but something we're going to talk about today.

Cause if we're in a low bracket that can make sense, especially if capital gains are going to go up in the future and then, you know, how do we give to charity in a most efficient manner as well? So a lot of these different things will come into play. As you know, as we look through these potential tax changes and then put a plan together for the rest of 2021.

Bill Keen: And Matt, I heard you had mentioned January of 20, 22, is it you're thinking that. Gosh, most likely changes. Won't be retroactive that hopefully if there are changes and there probably will be that there'll be January one 22.

Matt Wilson: That's what I believe. But it, it, you know, until they vote on it and give us the law, we never know the state of Kansas actually went through a, some tax changes a few years back and they were retroactive to beginning of the year.

Bill Keen: Oh yeah. I remember.

Matt Wilson: You know, it's hard to say a historical precedent has basically been the longer they wait, the more likely they're going to be starting the next year, but it has happened where they've made changes mid-year and they were retroactive to the beginning of the year. So again, we have to kind of juggle a lot of things and just make sure we're thoughtful and educated with the decisions we make. That's the most important part,

Bill Keen: And I think here also in the past, When we've talked about these things that our proposals, we always like to reiterate. These aren't law yet, but it's looking like a reasonably high likelihood that some of these things we talk about today will become reality.

We talk a lot about stress testing our plans for various scenarios, longer life, shorter life. Higher inflation, higher returns, lower returns, these variables. But I think it's important now to understand that we are stress testing client plans for potential tax changes.

So there's a lot of levers that Steve likes to mention that go into this. A lot of things that you would not think of that would on one hand would affect. two or three other things in some kind of cascading effect and taxes is a big hub to that type of thing. So what would you say the first thing is that we're stress testing?

Matt Wilson: First thing is individual rates. So currently the top tax rate is 37% and President Biden has proposed adjusting the rate back to 39.6, which was just the top rate back in 2018. it's not some new rate that's higher than where it was just a couple of years ago. Now. I believe there'll be pressures on both sides of the aisle to bring down some of the other brackets and or adjust the thresholds.

Bill Keen: To bring down the brackets, some of the lower brackets..

Matt Wilson: Right, right. So kind of a give and take meaning high brackets go up. I mean, this is just referring to the top bracket when I just said, but you know, maybe the first, second, third brackets come down a little bit, even.

Bill Keen: Will that be helpful to a good portion of our clients that we're able to manage their tax burden?

Matt Wilson: That's right. Yeah, because I mean, it definitely doesn't look like we're going to see lower taxes for high earners in the future and, you know, higher earners. That's something we're probably going to say a lot and you'll hear a lot. And what does that mean? Well the new administration has kind of used this $400,000 of income threshold.

that's what we mean by earners and for most retirees and especially retirees that we're working with, that isn't, you know, their income. Most people are below that in retirement.

Bill Keen: Yeah. And they might have a multi-million dollar portfolio. Yep. But the actual income, taxable income typically coming in under that 400,000 range.

Now, if somebody has a big capital gain, they sell or maybe a large deferred comp account that they retire and Roth conversions Other things it could give them a year or two where they are up in those. Those brackets and they would get hit by these higher rates the folks that we work with typically are what I would call.

You know, you all might remember that book came out many years ago, maybe 20 years ago, the millionaire next door type client. I mean, that's, that's the type of person, salt of the earth folks. Who've worked hard live within their means, built their wealth, typically on their own work trust fund babies.

gotten himself to a point of independence and, you know, they're enjoying the fruits of those labors. So Yeah, exactly right. On most of the time being under that 400,000 in retirement income

Matt Wilson: Now to your point about people can have multi-million dollar portfolios, but their income doesn't necessarily mean it's that high.

Well, the other item that they're looking at is adjusting the estate tax exemption. So over the past several years, the state tax exemption has varied. Now currently. an individual can have $11.7 million in an estate before facing any estate taxation. So that's an individual. So a married couple, you could double that Biden's tax plan proposals, reducing the exemption to three and a half million per person.

Which means, you know, the number of people paying estate taxes is going to go up because there's more people with smaller States, that's still a largest state, but still it's going to impact more people. So, you know, what does that mean? Well, We need to look at potentially some gifting strategies, or possibly even using some life insurance, if that's a big issue for you.

But you know, the other thing is to review your state plan for sure. necessarily laws yet, like we've already said, but if you haven't done an estate plan or if you haven't reviewed it in a while, at least this is something we're going to B. Talking to folks about reviewing if there are some significant changes like this the estate tax exemption.

Bill Keen: Now, if you think about the rate right quick, the rate currently for anything over this 11.7 million or, or that times two, if you're married is about 40% is, and I don't mean to oversimplify it because I know there's state tax laws as well that go on top of these federal laws. But yeah, about 40%, is the number. So anything over these numbers would go 40% approximately would go to the federal government and a state tax. If they bring this down to three and a half million times. And then times two, if it's a couple now, anything over that 7 million and I'm thinking they would raise the tax as well.

Is that right?

Matt Wilson: It's possible. I mean, do a lot of things when they actually do write these bills where they have a lot of different variations and maybe loopholes and things like that. So it's hard to say exactly, but I could see that happening.

Bill Keen: You know, we have some, I've talked to some very wealthy clients that have, you know, upwards of 40 and 50 million and some even more.

And as long as the asset is liquid. You don't have to sell a farm or something to pay the state tax. several of folks I've talked to recently have just said, you know what? If I've got 50 million, I'm going to give them quite a, quite a bit of it at my debt to charity. And then if my kids have to pay some estate tax, they're going to be fine still. Other folks have other opinions and thoughts on that as well. So nonetheless, if they bring it down, it's going to hit a lot more people.

Matt Wilson: That's right. And here's the other issue if it's in an IRA, so it could be liquid, but if it's in an IRA, you have to pull it out, which generates ordinary income to pay the estate tax.

So you can see a significant hit to an IRA balance with lower state tax exemptions.

Bill Keen: Absolutely. And if it's not, and it's in a farm or something, now you do have to sell an illiquid asset and the family could lose a farm or something along those lines.

Steve Sanduski: Let me ask just a basic question here. So we talk about an estate plan. We talk about a financial plan. What is the difference between an estate plan and a financial plan?

Matt Wilson: Yeah, the estate plan deals with what happens to your assets at death. The financial plan is, Hey, what are we going to do with all this money while we're still living? Yeah. That's really the biggest difference.

Bill Keen: That's a good problem to have. It sounds like. Yeah.

Matt Wilson: Yeah. The financial plan is typically the fun thing.

It's like, Hey, or how are we going to spend this money? Enjoy retirement, the state plan, which is one of the reasons why I think a lot of people kind of push us off as it's not fun to think about.

Steve Sanduski: Yeah. And is that really involved? Like the titling of assets and how to most tax favorably dispose of the assets when you die. But basically pre-planning all of that while you're alive and of sound, mind, and body.

Matt Wilson: Exactly and yeah. Who gets, what and what ages and There's a lot of what ifs that can go into estate planning too. And, and you know, what we see with a lot of our state planning attorneys is they tell us. And, and tell the clients too, don't over-complicate this the estate plan you create today might change in five years and that's okay.

You can change an estate plan.

Bill Keen: Most likely will. In fact, I'm updating mine, Carissa and I are now. we did ours about five years ago and we're updating it now. And amazing how many things that as we go back and sit down and look at it, have meaningfully changed a lot of, it's been my kids that were in their teenagers our oldest three and now they're productive adults.

So yeah. Lots of things do change.

Steve Sanduski: Yeah.

And I know this isn't in a state planning episode per se, but if you don't have an estate plan, then. The state is going to determine for you where your assets are going to go. So it's going to go somewhere. It just may or may not go where you want it to go,

Matt Wilson: That's right. Yeah. There is a plan. You just may not like the plan.

Steve Sanduski: Yeah. I think we've done some episodes in the past on that, but we're probably probably due for a new, another episode on estate planning, because that is such an important topic. And particularly after some of these tax changes happen and we'll have more clarity, that might be a good, another good episode to do down the road here.

So, so yeah. So what would be another area here in taxes that we're looking at?

Matt Wilson: So they're looking at creating some more income for the social security trust funds, and that would be through the payroll tax or the FICA tax. And so one of the proposals is to basically create a donut hole. So right now workers pay taxes on income. And this is per individual of 142,800. And that's earned income by the way.

So that's not IRA distributions. It's not pension income, not income from annuities. It's just earned income. And that's been going up each year an employee pay 6.2%. The employer pays 6.2%. So total of 12.4, if you're self-employed, you have to pay both sides of that. That's how that works. So the new proposal is to say, okay, that would stop at 142 eight.

So what happens if people have income more than that? Right now, they basically get an increase in their paycheck because the FICA tax stops once they hit that 142,800. Well, the new proposal is to say let's reinstate that once the income goes back above 400,000. So that's the donut hole in Medicare is a donut hole on prescription drugs where you don't pay anything or very, you pay a small copay and then you pay nothing for a certain window and then you pay you know, a big chunk of it after that.

And then you don't pay anything out of her. Again, this donut hole would be around the taxes, so you'd pay it on the 142 eight you'd then pay no FICA tax up to 400 and then you'd have your FICA tax again.

Bill Keen: So listen, I, as I look at these things, the first tax increase, you talked about. Taken us from 36 to 39.6 for folks over 400,000 of earned income.

It doesn't sound that bad. Yeah. The quote high-income earners, but if you throw another 6.2 now on top of that it starts to add up. Yes folks that have kind of income. So just take a note of that

Matt Wilson: that's right. Yeah. And there's a lot of ways this could shake out too, as we've been kind of talking.

We'll see what happens when they actually write a bill. And put that in front of the Congress to vote on, you know, how does all this look? Cause I I've even seen scenarios where they potentially reduce the

FICA tax for lower income people or even have it reduced across the board. But there's no threshold anymore.

Now again, the overall people would probably pay more, but it would maybe. You know, give some more uh, life to the social security trust funds. You know, another thing related around the estate tax is eliminating the step-up in basis at death. can you explain step up in basis? So right now, when people inherit portfolios, they pay very little capital gains tax.

So at death, let's say you inherit some stock. And that stock was Berkshire Hathaway. You had a, rich uncle up in Omaha, Nebraska, who had left you a bunch of Berkshire Hathaway stock, and they only paid $10 for it. Now it's worth 10 million. If that uncle sold it before he died, he's going to pay a capital gains tax on the difference between what he paid for it and what it's worth. Well currently, if he passes away and leaves that $10 million to you, you get a reset to your new basis is now $10 million.

The value it was when he passed away. And then when you sell it, now you get either a capital gain or loss based on what you sell it for. It's the difference between the date of death and what you actually sell it for. So you essentially could sell it right away and paid no tax. And that is a very nice thing to have happen.

And that applies to farms other properties. You know, it applies to anything that would have a basis. That's a taxable like that. So Biden is proposing, eliminating this provision. So it could result in a couple of different possibilities, either the basis gets transferred to the beneficiary. So in our example, the $10 basis is just transferred to you.

So now if you sell it, you have a capital gain on the difference or the entire gain is taxed at death. That was similar to like the estate tax.

Bill Keen: Yeah, no, I, there's no way they'll put that through. Could you imagine people that do have these family farms and things that are illiquid if they made the estate, you know, the estate tax is typically due about nine months after the date of death, the estate tax.

Now, now where they say, okay, we have to value this asset and you have to pay all that capital gains tax as well. Within yes. By tax season by next tax year?

Matt Wilson: Within there. No, it's similar to the estate tax. it would be a lot of taxes to pay if they did that. But it's an option right now.

We'll see what happens. I, I think it's unlikely. I don't think, you know, it's kind of like, as we've talked a lot of give and take, so if they reduce the estate tax exemption from 11.7 to 3.5, they probably aren't going to touch the step-up in basis. They'd probably leave that alone. and or maybe they got rid of the step of basis, but then they didn't mess with the exemption.

How much, you know, those kinds of your lips. All

Bill Keen: right. We're going to hold Matt to that, Steve.

Steve Sanduski: We are

Matt Wilson: I know. I have a lot of it depends in here and we'll see what the bill writes on these things. So, so that, that is an interesting one. And that hits A lot of people. So we're not talking about high net worth people.

I mean, anyone who transfers an asset, either a transfer of basis or the fact that gains are due at death would hit anybody. There's no exemption in that right now. So that's another thing they could say. It's exempt on the first, however many million, and then it kicks in. But right now, you know, the way they're talking, it would apply to every single person.

Now here's the, interesting one. They're talking about deductions for contributions to IRAs 401ks and similar retirement accounts with a 26% credit. So here's how to think about that. If you're in the top bracket right now, it's 37%. And you put you max out your 401k, you put 19 five in it.

Well, 19 five comes right off the top of your income. So you get basically a deduction of

Bill Keen: 37%. Yeah. It's a dollar for dollar

Matt Wilson: That's right. Sure. Well, now they're saying it would only be 26%. So in that case, the Roth IRA could be, or Roth 401k could be more attractive to that person because they're not getting the full credit You know, for that contribution to their 401k. And they're saying applies to IRAs and other retirement accounts.

Bill Keen: But the other side of it, if somebody is not in higher brackets, if they're in the lower brackets 15% one of the lower brackets, they would actually get more credit.

Am I understanding that correct? More than a dollar for dollar deduction? I brought that's how I read it.

Matt Wilson: Well, that's, kind of what, you know, they, again, they haven't written all the specifics, so they're, you know, just giving us some high level bullet points so you can interpret it that way. We'll see if they actually write it, but it, that would encourage people in lower income or lower brackets to say, because they're getting more for their savings.

And that's really, I think the purpose behind this is to encourage people to save that are in the lower brackets. And so I could see that happening. I mean, it's, again, one of the many scenarios we could see playing out here.

Steve Sanduski: And just overall Matt and bill, as we think about tax policy and particularly what president Biden is thinking about doing here. You mentioned for this particular potential change here with the 26% flat credit for the retirement contributions. Is there a sense for what is the overall objective of the Biden administration in terms of what they're trying to do with these tax changes?

Is there an overarching idea all of these changes, ultimately we want it to result in X, have they really come out and said what that is?

Matt Wilson: I haven't heard uh, very much on a specific number, but I believe it's just to help with the budget deficit primarily, and the income inequality that's out there. You know, they're looking at it and saying, well, we want to encourage people that are either lower income or in the lower brackets. Cause you know, they can use the, your taxable income as a proxy for your asset level and net worth not always the case, but again, that's just kind of how they use it and encourage people to do things that would be in their best interest. And by maybe taking away some of the benefits from you know, people that are in the higher income brackets. And I think that's their thought process.

You know, the reality is there's a, there's a lot of gray area in a lot of those things. So it's hard to say exactly what, what happens with this. You know, we look at this from a lot of different angles and. You know, it's a problem here in the United States. We've talked about that many times that there are just a lot of people that are getting close to retirement.

Don't have a whole lot of money saved and you know, as much as we want to provide education, help people do that. It still ultimately comes down to the individuals and making the decision to do it. Even if they knew all of these options and all the things that existed for them, they have to spend less than they make and just consciously decide to save.

And that's hard for a lot of people to do.

Steve Sanduski: Cause I know in business, as we think about, we've got a goal that we're trying to achieve, we come up with the overall strategy and what is it that we're trying to accomplish? And then we get down into the tactics. Well, here's the strategy. And then here's the tactics that we want to implement to try and achieve that strategic objective.

And I'm just wondering how well. Or not, well, the Biden administration has clarified. This is what we're trying to accomplish with these tax changes. And these are the specific changes to the tax code that we are proposing to help us achieve these larger objectives. And I think that kind of communication strategy might help people form an opinion about is as good as this bad as this indifferent.

Is there some good and some bad in these changes and maybe, you know, help some of the gridlock that we've got in Washington?

Matt Wilson: You would hope, I know the congressional budget office will come up with some projections based on uh, Here's what this looks like. If this were enacted and things like that. So there is some help, with that, but I believe once they, you know, it's still a little early in this, because again, we're talking kind of high level.

These are just not real specific or more vague, just. Talking points and bullet points that's been provided by the Biden administration. When they actually start writing a bill again, to vote on it in Congress, they'll get real specific and they'll come up with those numbers. But like, to your point, Steve, if they had a little bit more detail early on, it probably helps sell it a little bit better too.

Bill Keen: A lot of money been spent these last few years and it looks like a lot more money going to be spent. There's always the modern monetary theory as our backup plan. I guess I keep referring back to that when we see some of these numbers, don't put dents in the money that's being spent. But again, for another episode.

Matt Wilson: Yeah, that's

Steve Sanduski: Yeah, well, let's do that episode. Cause that's a fun one to talk

Bill Keen: Yes.

Matt Wilson: Another proposal is long-term capital gains rate. So this is an income threshold of a million dollars and over. So those would go from 20%. So currently, you know, the way that the long-term capital gains work is if you're married, filing, jointly, and your income's under about 81,000, you pay zero tax on your long-term capital gains, zero federal tax. Once you get from 80 to about 400 and something, I don't have the exact number, it's a 15% capital gains rate. And then over that 400 or so threshold, you move up to 20% and that's all the way up to, you know, unlimited number of amount of income you might have.

So now they're saying once you hit a million dollars, that 400 or so up to a million is taxed at 20%. And then over a million it's at the highest rate of 39.6 or the highest proposed rate. And plus there'd be another Medicare tax of 3.8% on top of that.

Bill Keen: So double in the long-term capital gains rate for folks over that million dollars.

Matt Wilson: So interesting because that would not insent people. If they have income of that much to wait. So there could be more transactions. If you have a high-income person, who's, doesn't, you know, it's going to be the same either way. They, you know, if they were going to wait one year in one day to get a favorable long-term gains rate in the past, we'll go in forward.

They may not do that.

Bill Keen: Or they might not transact nearly as much,

Matt Wilson: or they don't do it at all.

Bill Keen: Right. When these rates go up like this, so substantially it slows down or, or almost. To a halt transactions. So even though the rates are higher, it might generate less tax revenue because less people are willing to pay 40% long-term instead of 20.

Yes. I know that again, there'll be some projections run about what kind of activity will slow because of a double in the long-term capital gains rate, potentially for those folks. And I might add this has this applies to everybody, the FICA tax, we talked about applies to earned income, that additional FICA with the donut hole and the up over 400 and beyond for all the way up this applies to these capital gains rates to everybody.

Matt Wilson: That's right. Yeah. So, this is something I've heard many times, so there, there could be a a high likelihood that we see a version of this. In a bill. And so what we would look at is, okay, well, if you have a lot of long-term capital gains, maybe you should take some this year because next year they might double.

If you're going to wait. Also looking at gifting, highly appreciated stock to charity, again, looking more at tax loss, harvesting that makes tax loss, harvesting, even that much more important. And then potentially based on your age and whatever happens with the step-up in basis. I mean, if you're an older person and you may not think you have a whole lot longer to live and the step-up in basis, doesn't go away.

Well, you might just sit on it and get the favorable tax treatment at death. So lots of different ways to plan around this in the short term. But definitely some things to be conscious of in the long-term too. Cause there are ways to mitigate this. If you know, again, if you're charitably inclined and if you are paying attention to your portfolio and utilizing the benefits of tax loss harvesting on a pretty active basis.

Bill Keen: But speaking of being charitably inclined, now we have a maximum amount of itemized deductions proposed kind of like that deductions to IRA accounts and 401ks that would now limit. The deduction someone gets for a charitable contribution to what I'm seeing 28%?

Matt Wilson: Yeah. For those individuals over 400,000, you know, there's a again, proposal to limit the amount of itemized deductions to no more than 28%.

Bill Keen: So, again, it works the same way. As the, as the other formula we walked through. If you're in the close to 40% tax bracket, you make a donation. you get a dollar for dollar deduction the way it stands today. And this proposal you're in the 40% tax bracket, approximately you'd only get 28%. for a portion of your charitable deduction. You would not receive. A tax benefit.

Matt Wilson: That's right. you know, that goes into consideration when we're looking at our lumping and clumping strategy where it's like, Hey, if we are making charitable contributions, let's look at taking a bunch of it in one year. You know, and then taking the itemized deductions or, you know, some combination of each and spread it over and we have the analysis and tools to do that, to look at, Hey, let's maybe spread this out.

Or however, based on all the different scenarios that we're looking at.

Steve Sanduski: So this number 400,000 has come up a number of times here today. And I think that's a number that President biden has said that if you have income under $400,000, you will not pay a penny more in taxes. Now, we'll see if that actually comes to fruition, but I think that's one of key numbers we need to zero in on here is this $400,000 of income below that Biden's hoping we're not going to pay more taxes above that.

You're going to pay more taxes. So we'll see in the negotiation process, what happens there so well, guys, I know we're kind of bumping up on our normal time here. Are there one or two other key potential changes that we should be addressing here?

Matt Wilson: Yeah, another kind of interesting one is they're looking at bringing back the first time home buyer credit be a maximum of $15,000. And you know, I was talking about that with the planning team just this morning and you know, it was an interesting cause a lot of the comments from the planning team was, well, that's just going to add more fuel to the already pretty red, hot real estate markets.

So, you know, if you're going to incent people to go buy houses, it's like, Price probably are going to be coming down anytime soon.

Bill Keen: I've got two daughters here in Kansas City. They're trying to buy a house right now and they're out on the market more than two days. And my most recent one 15 offers and it went for 50,000 over asking price, just throwing their hands up in the air and saying, what is going on here?

Steve Sanduski: And we geek out on this kind of stuff, the three of us, because we're like numbers and financial people, but it's interesting to think about how the tax code. Has certain incentives to try and drive certain behaviors. So we get to deduct interest on home mortgages.

We're looking at home buyer credit. So there's a real strong incentive for people to own a home. And government has said, we think it's good public policy for people to own homes. Now people could argue with that, but it's interesting to look at what are the incentives that are tax code. Offers to try and drive certain behavior.

And what is the thinking behind wanting to try and drive that kind of behavior? And I think this home buyer credit is an interesting one, because as you say, the housing market is overheated right now, and it's really hard for someone to get into the market. And now you give them a $15,000 credit. It's just going to cause prices to go up even higher, which benefits people who already own homes.

So everything's a system here everything's connected and it's just interesting to see how all of this develops.

Matt Wilson: I know. And lastly, the other thing related to real estate too, is they're looking at eliminating the 10 31 exchange. So what that means is that you could exchange a light kind real estate property for another property. And basically defer any of the capital gains transfer your basis to the new property.

So with real estate investors, they love that because essentially they just kept deferring any gains they were making on their properties.

Bill Keen: And those are investment properties, right? Matt, not necessarily primary residences, but investment type properties.

Matt Wilson: Yeah. Your primary residence kind of is pretty much sheltered from taxes. Anyway, for the most part, there's a limit, but you know, first $500,000 in gains. So most people don't pay tax on that anyway. So in this situation, you know, it would either, again, like we were talking about with the capital gains tax, just completely reduce the number of investment property transactions, because they're going to have to pay gains or um, you know, it'll just maybe hurt that, that segment of the market a little bit more because you know, less people are going to be incentive to get into it because there's not as much favorable tax treatment.

Steve Sanduski: Yeah, this is just another example of an incentive. It's like, You know, why is real estate singled out to be able to exchange one piece of real estate for another, without paying a capital gain? That would be like saying if I own Apple and I want to buy Microsoft and I've got a big gain in my Apple stock.

Why don't I just. Exchange my Apple to buy the other stock and just not have to pay any capital gains on my Apple stock.

Bill Keen: Are you making that?

Steve Sanduski: We should, right.

Bill Keen: Yes, it is interesting though. Yes.

Steve Sanduski: I think it's, who's got the biggest lobbying budget probably.

Matt Wilson: I know, you know, that's the thing. They, they go after income a lot, you know, you've mentioned, you've heard us talk about income and taxes on income. They don't necessarily go after assets. So that's a, you just be thoughtful of that when you think about it, know people that have a lot of assets, but not a lot of income may not pay a lot in Texas.

Bill Keen: Until they

Matt Wilson: pass. Yeah.

Bill Keen: Maybe I guess they technically don't, but you know, you get the gist, so, right.

Steve Sanduski: All right. Well guys, I would like to wrap up here today. Got a lot of things we talked about and should our listeners be thinking about as a result of what you guys were just sharing here?

Bill Keen: We talk about in our retirement planning process, really being able to enjoy the fruits of our labors and, that second half of life. And we're in tax season. Now folks are reporting history to the government to determine what their tax liability is for. In this case 2020, but that's very different from doing what we call tax planning. And that's what we're talking about today now is thinking ahead about what might be coming at us and getting a real plan in place that fits into your personal financial plan.

Some of these things we talked about today, won't apply to you. Some of them will apply to you and being able to discern Which of these things apply in which don't and coming up with a viable plan so that none of this is a surprise. We're not looking up a year from now two years from now and saying, Oh my goodness, if we just would've studied this before, we could have made some changes back then, and it's too late now.

So I think that's the power of our program. I appreciate our listeners. Listening in to understand those things, taking the time to educate themselves, giving us platform here to, provide some of that information and thinking so that some of this hopefully strikes a chord with folks and they, do a little bit of planning out ahead of things and are able to maximize their resources.

Steve Sanduski: Well, thank you, bill. Thank you, Matt. As always, and to get the show notes and get access to all the previous episodes you can go to keen on retirement.com. That's K E E N on retirement.com. We've got all kinds of great content and material there for you to. Continue your education in these areas. So appreciate you all listening and we'll look forward to catching you on the next episode of keen on retirement.