SAMALIN

INVESTMENT COUNSEL

Volume IX Issue 2

May, 2021

*Finance*FOCUS

Four Things Investors Should Know About Stock Splits

In 2020, three companies in the S&P 500 index announced plans for stock share splits, down from 102 companies in 1997 and seven in 2016.[1]

As an investor, you may wonder what a stock split is and how it might affect your portfolio. Although splitting stock shares has been much less common in recent years, it's usually newsworthy when a high-profile company announces a planned split.

1. What is a stock split?

A company may decide to lower the price of its stock by splitting each outstanding share into more than one share. With a traditional stock split, more shares are available, but the total value of all the shares (the company's stock market capitalization) remains the same. For example, if a company announces a 2-for-1 split and you owned one share worth $100, you would own two shares worth $50 each.

2. Why do companies split their stock? Typically, stock splits occur when the price of individual shares has risen to a level that might discourage potential investors. More affordable share prices are thought to improve the liquidity, or the ease with which shares are bought and sold. Companies may also split stock to show management's confidence in the future performance of the stock, as well as to stir up interest in the stock if it has been languishing.

3. What is a reverse stock split? In order to increase the per-share price of a stock, companies might opt for a reverse stock split, which creates one share from multiple shares. One reason why a company might issue a reverse stock split is to satisfy a stock exchange's minimum share price. By decreasing the number of shares outstanding, the company boosts its stock price. Reverse stock splits could also make a company's stock more appealing to investors who might perceive it as more valuable at a higher stock price.

4. How do stock splits affect investors? A common misconception is that splits automatically increase the value of an investor's holdings. In reality, the number of shares owned is increased in proportion to the reduced price per share, so the total value of an investor's holdings remains the same. Stock splits generally have no impact on the broader stock market or the fundamental value of the stock. Some argue that they may potentially pose at least one advantage to shareholders: A stock split draws wider attention to a company's rising share price and the fact that it has been doing well.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Past performance is not a guarantee of future results.

1) The Wall Street Journal, August 28, 2020.

*Finance*Focus is published quarterly by Samalin Investment Counsel

Westchester
297 King Street
Chappaqua, NY 10514
914.666.6600
FAX: 914.666.6602

New York City
One Grand Central Place
Suite 4600
New York, NY 10165
212.750.6200
FAX: 212.750.6208

Tax Filing Information for Covid Virus Distributions

In March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The legislation included a provision that allowed qualified retirement plan participants and IRA account holders to take penalty-free early distributions totaling no more than $100,000 between January 1 and December 31, 2020. If you took advantage of this measure, here's what you need to know for tax filing.

WHAT IS A CORONAVIRUS DISTRIBUTION?

In order for a distribution to be qualified under the CARES Act, it must have been made to a qualifying individual before December 31, 2020. You qualify if you, your spouse, or dependents were diagnosed with the virus, or if you, your spouse, or someone who shares your principal residence experienced a pandemic-related financial setback as a result of:

- A quarantine, furlough, layoff, or reduced work hours
- An inability to work due to lack of child care
- Owning a business forced to close or reduce hours
- Reduced pay or self-employment income
- A rescinded job offer or delayed start date for a job

THE THREE-YEAR RULES

A key provision in the Act allows the distribution(s) to be spread "ratably" over three years for purposes of calculating tax payments. In other words, the total can be reported in equal amounts on your 2020, 2021, and 2022 tax returns. For example, if you received a $15,000 distribution, you could report $5,000 in income for each of the three years. However, if you prefer, you can generally report the entire distribution in your 2020 tax filing.

Another provision allows you to repay all or a part of your coronavirus distribution to an eligible retirement plan within three years from the day after the date the distribution was received. Repayments will be treated as if you enacted a trustee-to-trustee transfer, and no federal income taxes will be owed. (A repayment to an IRA is not considered a rollover for purposes of the one-rollover-per-year rule.) *(Continued on page 6)*

Is Your Home Office Also a Tax Shelter?

The pandemic ushered in the age of video meetings, providing a glimpse into many kinds of home workspaces. For many workers, a dedicated home office became more important than ever in 2020, though not everyone will get a tax break for having one.

A Perk for Business Owners

Only self-employed workers, independent contractors, and partners in certain pass-through businesses may claim the home office deduction on their personal tax returns.

To qualify, a home office must be the taxpayer's principal place of business and be used regularly and exclusively for work — not to manage personal matters or pursue a hobby. It must be a separately identifiable space, but not necessarily an entire room.

Prior to 2018, employees receiving a W-2 form and corporate business owners who were required to work at home could claim the home office deduction as a miscellaneous itemized deduction. However, this deduction was eliminated by the Tax Cuts and Jobs Act for years 2018 through 2025.

Companies may reimburse employees for some home office expenses and take a deduction on corporate tax returns.

One Way or Another

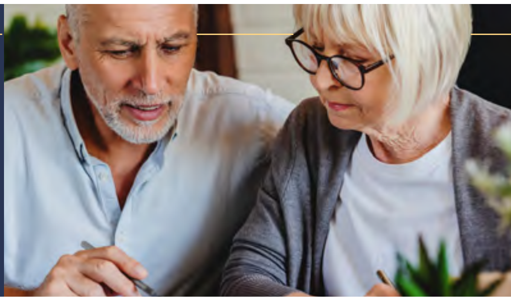
Taxpayers who operate a trade or business out of a qualifying home office can choose between two different calculation methods, one of which could result in a larger deduction.

Under the original method, eligible taxpayers can write off a percentage of home office expenses such as depreciation, rent, property taxes, insurance, utilities, maintenance, and repairs. The percentage is based on the square footage of the space used by the business relative to the total size of the home.

A newer, simplified option allows taxpayers to claim a flat $5 per square foot of the office, up to 300 square feet. Thus, the deductible amount is capped at $1,500. This simple formula doesn't take home office expenses into account, so it's easier to figure out and generally lightens the recordkeeping burden. However, business owners with relatively high home expenses may be able to claim more than $1,500 for a home office if they use the more complex calculation method.

Sole proprietors and independent contractors take the home office deduction as a business expense on Schedule C, and partners use Schedule E. Either way, small-business owners may want their tax professional to help determine eligibility and evaluate the potential tax savings.

Should You Convert Your Term Life to Permanent Life Insurance?



Term life insurance provides life insurance coverage for a specific time period (the term). The face amount of the policy is paid if you die during the term of the policy. When you live longer than the term of coverage, nothing is paid, as there is no cash surrender value. Permanent life insurance provides protection for your entire life, regardless of your age or health, as long as you pay the premium to keep the policy in force.

Usually, term life insurance costs less than permanent life insurance for the same amount of death benefit. Term policies often offer the opportunity to convert to permanent insurance. Here are some reasons why you might consider converting your term life insurance to permanent life insurance.

Your Health Has Changed

Since term life insurance is temporary coverage that will end after a number of years, your circumstances may have changed, warranting life insurance coverage for the rest of your life. Converting term life insurance to permanent life insurance does not require additional underwriting. This allows you to extend your life insurance coverage for the rest of your life without going through a medical exam. This fact is particularly important if your health has changed since the time you purchased the term policy.

Your Financial Circumstances Have Changed

You may have purchased term life insurance because it fit better into your budget. Now you may be able to afford the higher premium cost of a permanent life insurance policy that better fits your insurance needs.

You May Want Cash Value

Most permanent life insurance provides for the accumulation of cash value. Part of the premium goes toward the cost of the death benefit and related policy costs; another part goes toward building cash value. The interest and earnings grow tax deferred until you withdraw the funds and may be part of the income-tax-free death benefit when you die. With most cash-value life insurance, you can borrow against or take withdrawals from your cash-value account, although policy loans and withdrawals can reduce the death benefit.

You Want Funds to Pay for Final Expenses

Final expenses of a last illness and memorial and funeral costs could take quite a bite out of your assets, or worse, the assets of the loved ones you leave behind. You may want to convert some or all of your term life insurance to permanent insurance that can be used to pay for final expenses.

Questions to Ask

If you're thinking about converting your term life insurance to permanent, here are some questions to ask your insurer:

- **When must I decide to convert?**
- **What are my options? What types of permanent policies are available? Can I do a partial conversion?**
- **What will the premium cost?**

You Want to Leave a Legacy

The tax-free death benefit of a life insurance policy may be a cost-effective way to leave an inheritance to your loved ones. Permanent life insurance can be available no matter when you die, as long as you've kept up with the premium payments.

You May Owe Estate Taxes

Federal estate taxes are owed on estate assets that exceed the federal estate tax exclusion ($11.7 million in 2021). In addition, several states have their own separate estate taxes and exemptions. Those you leave behind can use the death benefit of your life insurance to pay some or all of any applicable estate taxes after your death.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Withdrawals of the accumulated cash value, up to the amount of the premiums paid, are not subject to income tax. Loans are also free of income tax as long as they are repaid. Loans and withdrawals from a permanent life insurance policy will reduce the policy's cash value and death benefit, and could increase the chance that the policy will lapse, and might result in a tax liability if the policy terminates before the death of the insured. Additional out-of-pocket payments may be needed if actual dividends or investment returns decrease, if you withdraw policy cash values, or if current charges increase. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

MORE PEOPLE DELAY CLAIMING SOCIAL SECURITY

The average age for claiming Social Security retirement benefits has been steadily rising. Older Americans are working longer, in part because full retirement age is increasing incrementally from 66 to 67. A worker may begin receiving Social Security retirement benefits as early as age 62, but monthly benefits will be permanently reduced by as much as 30% if claimed before full retirement age — a strong incentive to wait.

Money Market Funds in a Low Rate Environment

After pushing interest rates gradually upward for three years, the Federal Reserve dropped the benchmark federal funds rate to near zero (0%–0.25%) in March 2020 to help mitigate the economic damage caused by COVID-19.[1] The funds rate affects many short-term interest rates, including the rates on money market mutual funds, which were already low to begin with.

The average monthly yield on 30-day taxable money market funds dropped steadily after the Fed's move and was down to 0.03% by the end of 2020, equivalent to an annual percentage rate of about 0.36%.[2] Considering the rock-bottom rates on some short-term investments, this is higher than might be expected but well below the rate of inflation.[3] Even so, investors held about $4.3 trillion in money market funds.[4]

What's the appeal with such a low return? Stability and liquidity.

CASH ALTERNATIVES

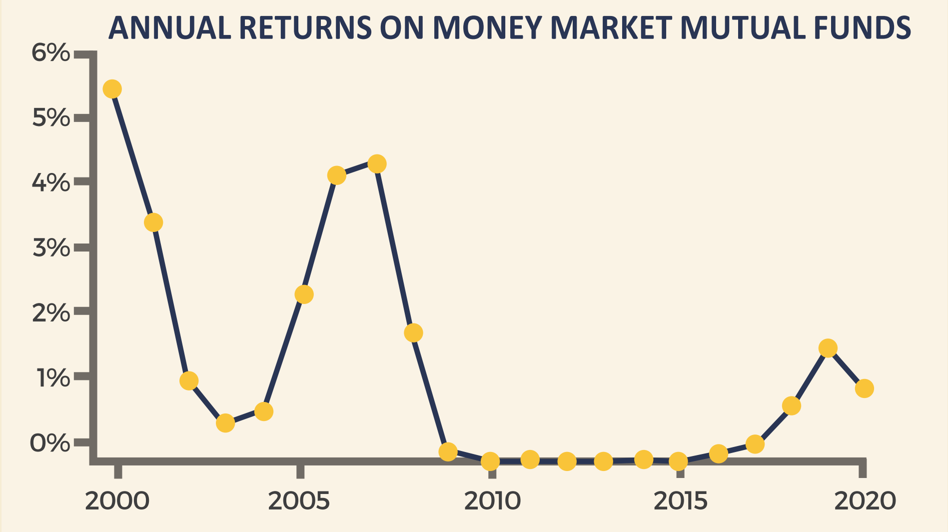
Money market funds are mutual funds that invest in cash alternatives, usually short-term debt. They seek to preserve a stable value of $1 per share and can generally be liquidated fairly easily.

Money market funds are typically used as the "sweep account" for clearing brokerage transactions, and investors often keep cash proceeds in the fund on a temporary basis while looking for another investment. In a volatile market, it's not unusual to see large shifts into money market funds as investors pull out of riskier investments and wait for an opportunity to reinvest.

SHORT TERM VS. LONG TERM

Money market funds can also be useful to keep emergency funds or other funds that might be needed quickly, such as a down payment on a home. If you are retired or near retirement, it might make sense to use money market funds for near-term expenses and/or to hold funds in a traditional IRA for required minimum distributions, so you do not have to sell more volatile assets.

For a long-term investing strategy, however, money market funds are a questionable choice. You might keep some assets in these funds to balance riskier investments, but low yields over time can expose your assets to inflation risk — the potential loss of purchasing power — along with the lost opportunity to pursue growth through other investments. This could change if interest rates rise, but the Fed projects that the federal funds rate will remain in the 0% to 0.25% range through the end of 2023.[5]



Source: Refinitiv, 2021, 30-Day Money Market Index — All Taxable, for the period 12/31/1999 to 12/31/2020. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in such a fund.
Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1, 5) Federal Reserve, 2020
2) Refinitiv, 30-Day Money Market Index — All Taxable, for the period 12/31/2019 to 12/31/2020
3) U.S. Bureau of Labor Statistics, 2021
4) Investment Company Institute, 2021 (data as of 12/29/2020)

Real Estate for Income and Diversification

An estimated 145 million Americans own real estate investment trusts (REITs) in their retirement accounts and other investment funds.[1] The primary appeal of REITs is the potential for a consistent income stream and greater portfolio diversification. Of course, like all investments, REITs also have risks and downsides.

Pooled Property Investments

An equity REIT — the most common type of REIT — is a company that uses the combined capital of a large number of investors to buy and manage residential, commercial, and industrial income properties. A REIT may focus on a specific type of property, but REIT properties in general might range from shopping malls, apartment buildings, and medical facilities to self-storage facilities, hotels, cell towers, and timberlands. Equity REITs derive most of their income from rents.

Under the federal tax code, a qualified REIT must pay at least 90% of its taxable income each year in the form of shareholder dividends. Unlike many companies, REITs generally do not retain earnings, so they may provide higher yields than some other investments, which might be especially appealing in the current low-interest environment. In January 2021, equity REITs paid an average dividend of 3.55%, more than double the 1.55% average dividend paid by stocks in the S&P 500 index.[2–3]

You can buy shares in individual REITs, just as you might buy shares in any publicly traded company, or you can invest through mutual funds and exchange-traded funds (ETFs).

Income vs. Volatility

Equity REITs are effective income-generating assets, but share prices can be sensitive to interest rates, partly because companies often depend on debt to acquire rent-producing properties, and interest rates can affect real estate values. Also, as rates rise, REIT dividends may appear less appealing to investors relative to the stability of bonds offering similar yields. For buy-and-hold investors, the income from REIT dividends may be more important than short-term share-price volatility. Moreover, REIT share prices do not always follow the stock or bond markets, making them a helpful diversification tool (see chart).

While REITs are traded on the stock market, they are in some respects a unique asset class with characteristics of both stocks and bonds. So holding REITs not only may diversify your stock holdings but might also broaden your approach to asset allocation. Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

A Class of Their Own

Over the last decade, equity REITs have performed very differently than stocks and bonds. REITs were slower than stocks to recover from the early 2020 bear market, which could make their lower valuations and higher yields appealing for long-term investors.

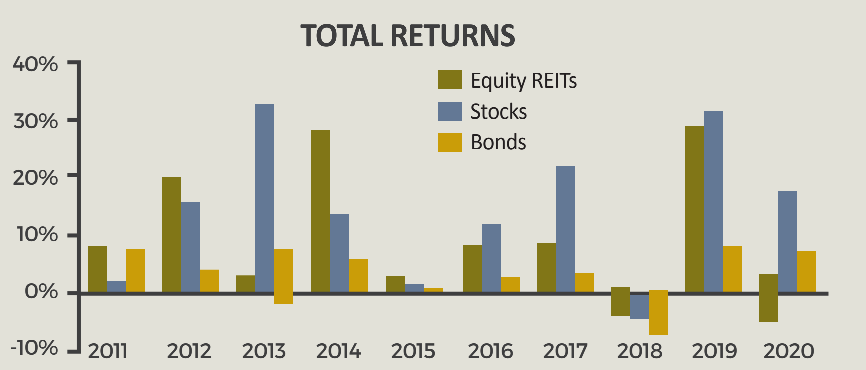
Real Estate Risks

There are inherent risks associated with real estate investments and the real estate industry that could adversely affect the financial performance and value of a real estate investment. Some of these risks include a deterioration in national, regional, and local economies; tenant defaults; local real estate conditions, such as an oversupply of, or a reduction in demand for, rental space; property mismanagement; changes in operating costs and expenses, including increasing insurance costs, energy prices, real estate taxes, and the costs of compliance with laws, regulations, and government policies.

The return and principal value of all investments, including REIT shares, fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1–2) Nareit, 2021 (2019 data for REIT ownership)
3) S&P Dow Jones Indices, 2021



Sources: *Nareit, 2021; S&P Dow Jones Indices, 2021; Morningstar, 2021. Equity REITs are represented by the FTSE Nareit All Equity REIT index, U.S. stocks by the S&P 500 total return index, and bonds by the Bloomberg Barclays U.S. Aggregate Bond TR index. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.*

SAMALIN
INVESTMENT COUNSEL

Westchester
297 King Street
Chappaqua, NY 10514

New York City
One Grand Central Place
Suite 4600
New York, NY 10165

The SICounsel Team

Tax Filing Information for Covid Virus Distributions

(Continued from page 2)

If you pay your income taxes prior to repaying the distribution, your repayment will reduce the amount of the distribution income you report in a subsequent year. Or instead, you may file an amended return, depending on your specific situation.

Consider speaking with a tax professional before making any final decisions.

HOW TO REPORT DISTRIBUTION INCOME

If you received a coronavirus distribution(s) in 2020, you should use Form 8915-E, Qualified Disaster Retirement Plan Distributions and Repayments, to report the income as part of your 2020 federal income tax filing. You can also use this form to report any recontributed amounts.