Mench Financial, Inc.

Market Thoughts

(513) 745-5111 Third Quarter 2020

PPP Update For Business Owners

The Paycheck Protection Program Flexibility Act (PPPFA) of 2020 modified terms of forgiveness for loans to businesses under the Paycheck Protection Program (PPP) on June 5, 2020.

Since its enactment into law in late March, PPP has undergone two legislative revisions. Here's a short history a business owner needs to know about PPP:

Round 1. PPP is the principal federal financial aid program for business owners harmed by the epidemic. The program is run through the Small Business Administration and was part of the $2.2 trillion Coronavirus Aid, Relief & Economic Security Act (CARES Act) enacted March 27, 2020. PPP authorized $349 billion in aid to businesses, in the form of forgivable loans, but that ran out in less than two weeks.

Round 2. A second tranche of $310 billion in PPP aid was authorized by Congress and signed into law by President Trump a month later and it's now being distributed to qualified businesses.

Cleanup. PPPFA cleans up rules and requirements of qualifying PPP loans. For example, the criteria for a loan to be forgiven was softened considerably in two key ways:

Instead of requiring a business owner to spend 75% of the loan on employee compensation and only 25% on rent, utilities and other costs specified under federal law, a business owner can spend as little as 60% on compensation and still qualify for loan forgiveness. You must use the loan proceeds for payroll, health insurance, funding an employee retirement plan, and interest on a mortgage, rent, as well as utilities.

Another important easing of the

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Act Before The Tax Pendulum Swings Back

For business owners, professionals, and wealthy retirees, tax rules are about as favorable as they've been in decades, but the tax pendulum is likely to swing back the other way. You don't need to be a political pollster to know higher taxes are likely in the years ahead, with U.S. Government debt soaring and the U.S. Senate possibly changing parties. Now is the time to consider how a reset in tax policy is likely to affect you and your family.

Managing wealth requires tax planning. If investment management is the sizzle, tax planning is the steak.

Retirees, for instance, have a significant opportunity to create a lifetime tax-free income stream by converting to a Roth IRA. But they must act by the end of 2020 and getting it done correctly requires careful advanced planning and forethought.

The difficulty in tax planning is that it is entirely dependent on your personal situation, including complex variables such as the needs of your children or other heirs, your charitable inclination, your age and health and a host of other personal preferences. It's personal.

At the risk of sounding alarmist, today really is a good time for business owners, professionals, and families with wealth to be considering tax minimization strategies.

T.S.M.

Business Owner Alert: Main Street Lending Program Offers Covid Aid

Business owners who were unable to qualify for federal Covid-crisis emergency assistance from the Payment Protection Program (PPP) need to know about the Main Street Lending Program (MSLP).

Enabled by the CARES Act on March 27, 2020, MSLP is administered by the Federal Reserve Board, which is not a normal function of the Fed. The program makes available $600 billion in federal aid to small businesses demonstrating sound financials before the Covid outbreak.

Like PPP, MSLP aid takes the form of loans with favorable terms. A very important difference from the PPP loan program, however, is that MSLP loans are not forgivable.

MSLP is intended to ease credit conditions for small business suffering from the Covid crisis. Some businesses may find its terms advantageous.

The minimum loan size is $250,000 and the term of each loan is five years. Significantly, no principal repayment is required for two years.

Ninety-five percent of the loan principal is advanced by the government. Your lender provides just 5% but receives a 1% annual fee on the full loan amount.

Despite offering an interest-free loan for one year and requiring nothing to be repaid for two years, requiring 70% of the loan be repaid at maturity – known as a balloon payment – carries a risk that must be considered in evaluating an MSLP loan. Other borrowing options should be considered in lieu of the MSLP loan program.

The Main Street Lending Program is new, and it was launched amid the Covid crisis. New terms governing MSLP loans were released on June 6, 2020, and are subject to change by the Federal Reserve Board at any time. The Fed released a lengthy FAQ about the program on June 26.

Proper evaluation of taking an MSLP loan requires an understanding of your personal financial and tax situation, your business' financial condition and other factors beyond the scope of this financial planning alert. Please contact us with questions. ●

Financial And Tax Planning For The Long Run

After paying a terrible price in lost lives, suffering, and grief, the Covid economic crisis will pass, along with emergency tax relief in the history-making $2.2 trillion CARES Act of 2020. The tax law with us permanently, and the rules that will be affecting you every year for years to come, is the SECURE Act.

Signed by President Donald J. Trump on December 20, 2019 the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE) Act mandates non-spouse beneficiaries of IRAs deplete their accounts within 10 years of inheriting a federally qualified retirement account. A non-spouse beneficiary may be your child, grandchild, nephew or niece, or other family members you want to support after you're gone.

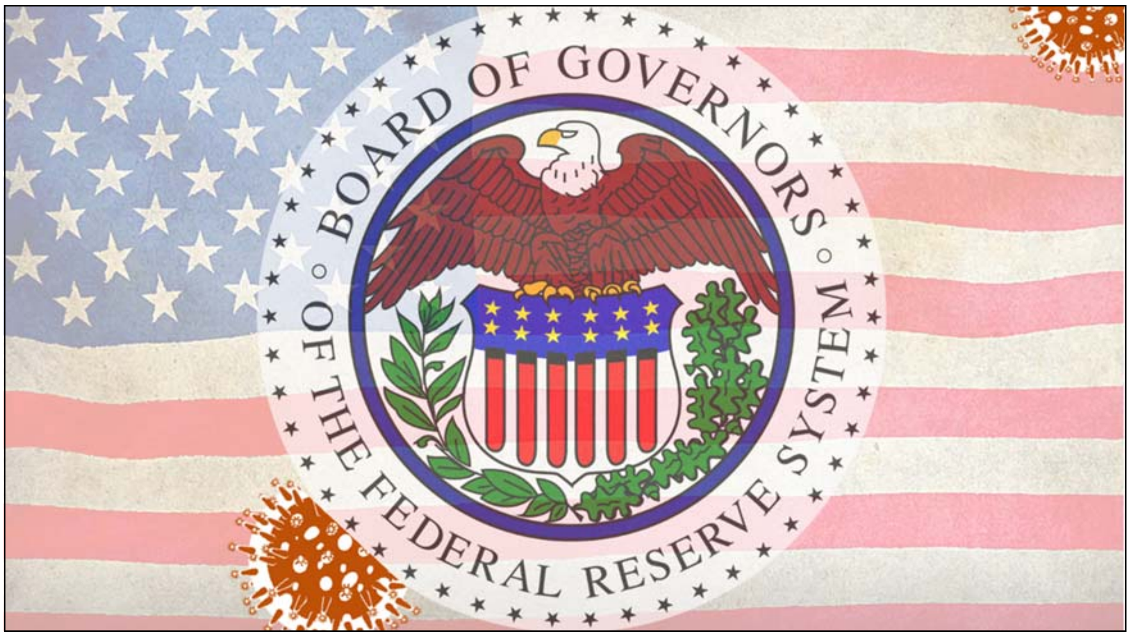
New Retirement Income Planning Choices. SECURE Act encourages using more lifetime income annuities to secure retirement. While this may be good generally, there is one huge caveat: annuities can be expensive. Lifetime income backed by an insurance company's creditworthiness makes for a great sales pitch but are best advised on by a professional who places your best interest above all else, including the sales commissions they will earn.

Business Owner Tax Breaks. SECURE Act also makes it less expensive and easier for business owners to establish and administer "safe harbor" retirement plans, including, boosting the "gig economy," and making part-time workers eligible for employer retirement plans.

Delaying Distributions Until Age 72. Postponing required minimum distributions (RMDs) 18 months is another idea you may want to consider. The SECURE Act lets you delay RMDs on IRAs, effectively extending the benefit of compounding. Instead of requiring you to begin depleting your retirement account at age 70½, you can

Covid, The Fed & American Exceptionalism

The Coronavirus financial crisis is being compared to the near collapse of the global financial system in 2008 and The Great Depression from 1929 to 1939, but there is one big difference this time: The Fed. The Federal Reserve Bank is using innovative new tools to contain the financial damage of the Coronavirus epidemic.



In the financial crisis of 2008, the chairman of the Fed at the time, Ben Bernanke, an academic who had spent decades studying previous financial crises, repeatedly deployed a technique called quantitative easing (QE). QE expanded the Fed's balance sheet to buy back U.S. Government bonds on the open market, thus, lowering long-term interest rates.

Never before had the tactic been used by a central bank in a major economy. It worked, however, and QE was one of the reasons the U.S emerged successfully from The Great Recession of 2008 and 2009. The Fed's present response to the Coronavirus crisis is literally 10 times more powerful.

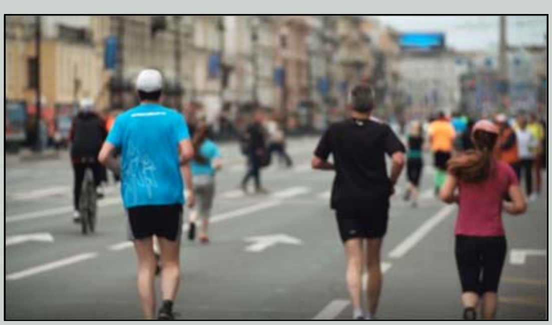
Under the $2.2 trillion Coronavirus Aid, Relief, and. Economic Security (CARES) Act enacted March 27, 2020, the U.S. Government allocated $454 billion to Federal Reserve Bank Special Purpose Vehicles that the central bank can leverage 10 to 1, thus enabling it to lend up to $4.54 trillion to companies in financial distress.

That sum is reportedly more than all U.S. commercial and industrial loans outstanding at the end of 2019, plus all the new corporate bonds issued during 2019 combined! Although the expansion of the Fed's power has been criticized as a step toward a centrally planned economy, this government action limits the risk of potentially massive corporate bond defaults and corporate bankruptcies.

The U.S. led the worldwide economic recovery following the global financial crisis of 2008, in part because of the Fed's innovative approach. And now, this most recent display of Yankee ingenuity -- in the form of the Fed's new tools -- is at play once again in fighting the Coronavirus-induced financial crisis.

In these frightening times, the Fed's new toolset is likely to become a mere footnote in history books that will be written about the pandemic in the decades ahead. Ever since Alexander Hamilton established the first U.S. central bank in 1791 to respond to the financial crisis that followed the Revolutionary War, the uniquely American central bank has enabled the progress of civilization through financial crises. The U.S. Government response to the Coronavirus financial crisis is a shining example of what makes America exceptional among the nations of the world. ●

now delay it until age 72. This small change can amount to big bucks because your IRA can compound without being taxed for an extra 18 months. Deferring taxes for 18 months on a large IRA is a no-brainer, if you can afford it. Implementing this step in your retirement income plan should be part of your overall strategy to outlive your money and create a legacy for your family.



The SECURE Act and other tax reforms passed before the CARES Act make tax and financial planning more important to individuals who are about to retire or who recently retired. Weighing SECURE Act's sweeping tax implications as well as Covid-19 emergency tax relief provisions in CARES Act making Roth IRA conversions more attractive requires detailed knowledge of your personal situation. Please contact us with your questions. ●

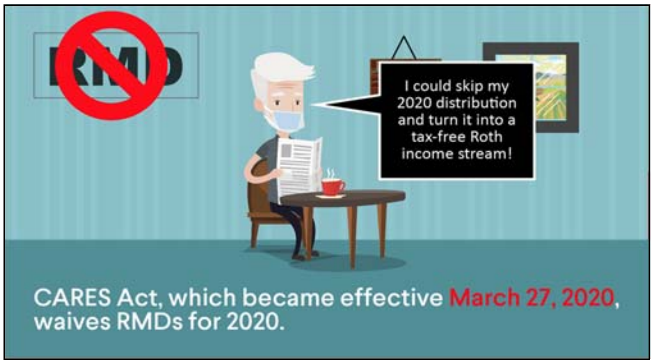
Act By The End Of 2020 For A Major Retirement Income Tax Break

A confluence of events have suddenly aligned to create a major tax planning opportunity for individuals who are currently taking IRS-mandated required minimum distributions (RMDs) from an individual retirement account or are about to start taking RMDs.

A provision of the CARES Act – the Covid crisis emergency aid law in effect since March 27, 2020 -- lets you skip your required minimum distribution in 2020. Since many individuals of RMD-age (72 and above) have been remaining homebound during the Covid crisis and are spending less, skipping all or part of an RMD is easy and often makes sense over the long term. Skipping an RMD in 2020 would leave that money in the IRA to compound tax-free over a longer time period.

Here's where the unusual alignment of factors takes a special twist. Instead of skipping your 2020 RMD and simply leaving it in your retirement account , you can withdraw all or part of it, pay the income tax on the withdrawal amount and use that amount to fund a tax-free Roth IRA!

Distributions taken as RMDs from pre-tax retirement accounts are always taxable whereas distributions from a Roth IRA are never taxable! Converting assets to a Roth IRA in this manner could provide tax-free income for years, and when you die, to your spouse and your IRA beneficiaries for the life of the Roth IRA.



2020 also happens to be a particularly good year to convert assets from a traditional pre-tax retirement account to a Roth IRA. Why? Because when you withdraw assets held in a traditional IRA or other qualified pre-tax retirement account, you will owe income tax on the withdrawals. The unusual confluence of events making it possible for you to live on a lower income during the Covid crisis creates this unique tax saving opportunity for long-term investors who act before December 31, 2020.

With stock prices still off their all-time highs and continuing to suffer frequent and often vicious one-day drops, taking the opportunity to sell stocks in your retirement account and converting the proceeds into a Roth IRA makes particularly good sense. In addition to selling these stocks when they are relatively cheap, you would also be realizing the taxable income from the retirement account at a time when the Covid crisis has kept your expenses low.

Between now and the end of 2020, the unusual confluence of events makes it wise to evaluate skipping a required minimum distribution and converting to a tax-free Roth IRA. It is a major tax saving opportunity that you do not want to miss. ●

PPP Update For Business Owners

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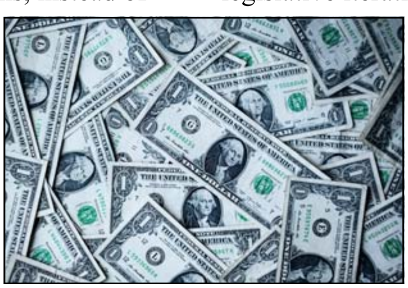
loan forgiveness rules were enabled in the new cleanup law: You now have 24 weeks to spend PPP loans, instead of just eight.



PPPFA also fine-tuned how many employees you must retain to qualify for loan forgiveness and spells out more clearly whether you can hire different employees during the 24-week period and still be eligible to qualify for loan forgiveness.

Another enhancement in PPPFA: Loan recipients are able to defer their share of payroll taxes until 2021 when 50% of such taxes must be paid, with the remaining half due in 2022.

With businesses at risk due to the epidemic, PPP is a lifeline to business owners. However, PPP's three legislative iterations have complicated its implementation for business owners, who must certify that the loan is needed under penalty of civil and criminal fraud, while remaining cognizant of rules for loan forgiveness. It's beyond the scope of this article to offer personal advice or complete details of the series of PPP laws. If you have questions about PPP or how it impacts your long-term personal financial situation, please contact us.

Nothing contained herein is to be considered a solicitation or research material. It is subject to change without notice. Strategies referenced herein do not take into account your personal objectives, financial situation or particular needs of any specific person. The material represents an assessment of financial, economic and tax law at a specific point in time. The sources are thought to be reliable but could be wrong about important facts.

The U.S. Government's response to the Coronavirus crisis may implement new regulations and their precise impact may not be available at the time this was written or could be subject to change by U.S. Government agencies, such as the Internal Revenue Service or Small Business Administration. ●