

# The FINANCIAL UPDATE

**DAY & ENNIS, LLC**  
FEE-ONLY FINANCIAL PLANNING



Second Quarter 2021

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## Going Out On Your Own Terms: Six Key Documents In An Estate Plan

**E**veryone's estate plan is unique, but these six documents are key in ensuring your final wishes are carried out and you end life on terms you have set out.

### 1. Financial power of attorney.

This document authorizes an "attorney-in-fact" to act on your behalf in financial matters. The most common power of attorney, a "durable" one, remains in effect if you're incapacitated. Another variation, which is known as a "springing" power of attorney, transfers control to the designated person only if you're incapacitated.

The attorney-in-fact may have broad powers. They may be enabled to buy or sell personal property, for example, or the role may be limited to specified tasks. This power of attorney expires when you die.

### 2. Health-care power of attorney.

This also authorizes another person to make decisions on your behalf if you're unable to do so—in this case, involving medical care, carrying out your end-of-life wishes, and related matters. Here, the attorney-in-fact is typically your spouse, a child, or a sibling. Like a financial power of attorney, it may be broad or limited and expires at your death.

**3. Living Will.** While a health-care power of attorney may authorize someone to help with end-of-life decisions, establishing what will happen when you're dying is the sole purpose of a living will. Depending on the laws of your state, you may be able to use a living will to say whether or not you want life-sustaining

treatment if you are terminally ill or grievously injured.

Also depending on state law, a health-care power of attorney and a living will may be combined into one document. In other states, a living will may supplement a health-care power of attorney, and both documents can be coordinated with other medical directives or proxies.

**4. Trusts.** There are many reasons for creating and funding trusts. A trust could be used to prevent family squabbles or impose restraints on spendthrift family members. One variation, a living trust, often supplements a will. Because assets in a living trust don't go through probate court proceedings, it keeps the disposition of your final affairs private and asset transfers through a trust are harder to contest than assets that go through the public probate process. The probate process can also be lengthy.

Though there are a myriad of variations, all trusts are either revocable or irrevocable. With a revocable trust, you retain control over the assets. While that's not the case with an irrevocable trust, it can protect assets from creditors and remove them from your taxable estate.

**5. Final Letter.** A final letter can be used to write down a plan for your funeral arrangements, who is to inherit precious family heirlooms, works of art, personal items, and to bestow final blessings and salutations to the people who matter most to you.

**6. Will.** Your will establishes how your assets will be distributed after you

## Your Financial Psychology Under Current Conditions

**A**re you a risk taker? Will you follow through on a long-term plan? Or maybe your natural tendencies make you prone to spend impulsively and let short-term emotions control your budget and investing decisions. These are financial personality traits that behavioral economics helps you identify and manage.

The psychological dimension of financial planning is part of the knowledge learned from the burgeoning social science of behavioral economics, a field recognized for its contribution in helping to improve society through knowledge in 2002 with the award of a Nobel Prize in Economics to Daniel Kahneman, and again in 2017 with the Economics Prize awarded to Richard Thaler.

A practical benefit of behavioral economics is that investors can take assessments to understand their personal financial personality traits.

With traditional stock market price-to-earnings valuation benchmarks broken and growing concerns about a bubbly market, it is important to keep the speculative nature of excitement-seekers in check. Meanwhile, risk-averse individuals cannot allow their natural tendencies to make them so fearful that they avoid stocks and risk assets, or for retirees to worry excessively about outliving their savings.

The current economic boom, unprecedented government stimulus, inflation scare, and record-breaking stock prices make this a good time to assess your unique investor personality traits. Understanding your financial personality can help you make better decisions.

Sincerely,  
Day & Ennis, LLC

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# Do The Top 1% In Income Pay Enough Income Tax?

**D**o the top 1% in income in America pay enough income tax? Here are the facts to decide.

In 2018, the latest data from the Internal Revenue Service show 153.6 million individual income tax returns were filed. Of those returns, 1.6 million reported adjusted gross income of \$500,000 or more. Thus, almost exactly 1% of individual returns filed in 2018 reported income of \$500,000 or

more. Using income as a gauge of wealth, rather than net worth, these are the “one-percenters.”

The one-percenters – taxpayers earning \$500,000 or more in adjusted gross income – accounted for 21.7% of total adjusted gross income reported on all 153.6 million individual tax returns filed.

The one-percenters accounted for 41.5% of total income taxes paid and

they paid 25.3% of their adjusted gross income in taxes 2018, which was less than they paid before the tax cut of signed into law in December 2017.

Was that enough? We will leave it to you to decide, but those are facts. No matter your answer, tax hikes on income and wealth are almost certain to be enacted in 2021. You can count on us for advice as well as the facts in dealing with your personal situation. ●

## DO THE TOP 1% INCOME EARNERS PAY ENOUGH IN TAXES?

**% Of Individual Federal Income Tax Returns Filed Reporting \$500,000 Or More Of Income**



Of 153.6 million individual income tax returns filed in 2018, 1.6 million reported adjusted gross income of \$500,000 or more – almost exactly 1%.

**Income Taxes Paid By Taxpayers Earning \$500,000 Or More As A % Of All AGI Reported**



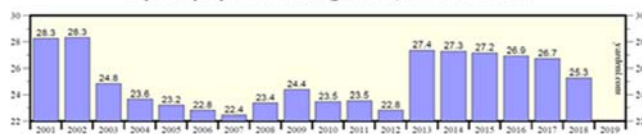
The one-percenters – taxpayers earning \$500,000 or more accounted for 41.5% of total income taxes paid.

**AGI Reported By Taxpayers Earning \$500,000 Or More As A % Of All AGI**



The top one-percent in AGI accounted for 21.7% of all total adjusted gross income reported on all 153.6 million individual income tax returns filed in 2018.

**Income Taxes Paid As A % Of All AGI Reported By Taxpayers Earning \$500,000 or more**



The one-percenters – taxpayers earning \$500,000 or more -- paid 25.3% of their AGI in taxes.

Source: Yardeni Research, Inc. with permission; Internal Revenue Service

## Stock Market Trend Report

**W**hile a single quarter of data is usually not elucidating – it’s just not enough time and data to make a sweeping conclusion – sometimes a single quarter tips you off to a shift in investor preferences. That’s true in this three-month snapshot. It shows the stock market investments classifying companies by market capitalization and style.

The fact that small-cap value led the market last quarter marked a reversal of the pandemic boom in which the super-cap growth stocks, like Amazon, Apple,

Facebook, Microsoft, Netflix, and Google, dominated returns and temporarily distorted the performance of the S&P 500 index.

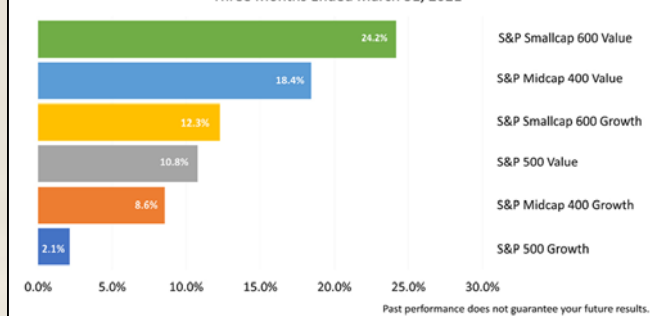
Many stocks in the blue-chip

Standard & Poor’s 500 index were weak relative to the tech giants earlier in the pandemic. The tech giants grew stronger during the pandemic because their solutions were used more than expected, triggering larger than expected profits in a handful of super-large cap stocks.

Since the S&P 500 index is market-weighted, the price surge in the super-large tech companies became more influential in the S&P 500 index. That trend was reversed last quarter and again in the first quarter of 2021 ended March 31, 2021.

Since the election, the bull

**U.S. Stocks By Style And Market Capitalization**  
Three Months Ended March 31, 2021



Past performance does not guarantee your future results.



# Two Observations That May Make Higher Taxes Easier To Bear

**F**or the first time since the administration of President Ronald Reagan, federal government tax policy is changing significantly. Tax cuts were in vogue for nearly four decades, but President Joseph Biden is planning on implementing higher federal taxes on corporations as well as high-income and high net-worth individuals in 2021.

As Congress debates the Biden administration's proposal for a massive increase in federal infrastructure spending, which would require an increase in taxes and government borrowing, here are two key observations made by independent economist, Fritz Meyer.

This chart shows how the United States Government spent its revenue over the half-century ended with the 2019 fiscal year. It's from the non-partisan Congressional Budget Office. Priorities shifted. Health care spending and Social Security are receiving a greater share of revenue, while defense spending has been judged a lower priority since the fall of the Soviet Union.

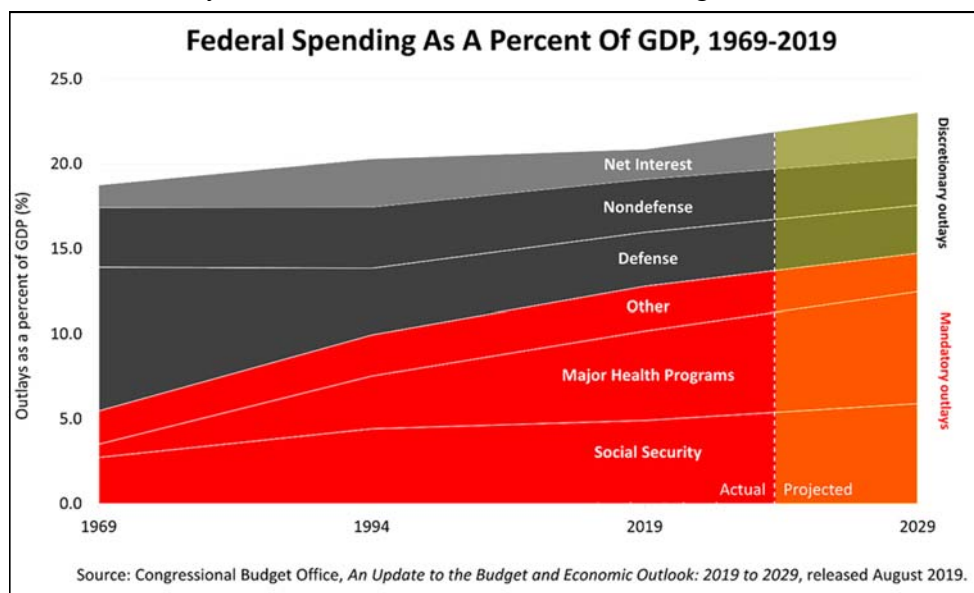
In the decade ahead, spending on Medicare, Medicaid, and other federal health programs, along with Social Security and the



interest payments on the national debt, are expected to continue to steadily increase as a percentage of the total economy.

**Observation:** The nondefense spending category, outlays for maintaining the nation's infrastructure – roads, mass transit, communication, buildings, and basic functions of American society, has been allocated a shrinking share of gross domestic product as the population grew. Federal highway, mass transit, and communication systems make America the envy of most of the world, but it has taken a backseat to other priorities.

Including all forms of taxes –



market broadened out. Value and small-cap stocks have surged. In this chart, the equal-weighted Standard & Poor's 500 stock index is outperforming the market-capitalization weighted S&P 500 index,

which is commonly quoted and the main benchmark of U.S. stock performance.

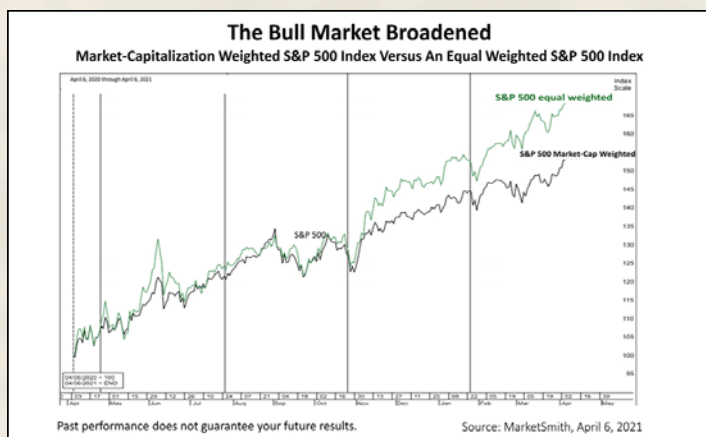
Investors have viewed the election of President Biden in very positive terms, undoubtedly because of the enormous

fiscal stimulus the new administration is pursuing. The larger role played by the government in responding to the Covid economic crisis will be subject to political debate. No matter your politics, however, the broadening of the bull market is a good trend for stock market investors. ●

federal, state, and local; income, sales, value-added, estate, and property taxes – the U.S. has one of the lowest total tax burdens among the 37 developed nations that are members of the Organization of Economic Cooperation and Development (OECD). Countries, such as China, Brazil, India, and Russia, are not OECD members and excluded here.

**Observation:** The comparatively low tax burden of the U.S. allows some flexibility in solving the country's long-term spending problems.

Nobody wants to pay more taxes, but these two observations might make the series of tax hikes expected to be enacted in the weeks ahead easier to bear. ●



# A Tax And Financial Planning Opportunity Is Closing

**F**rom the perspective of a financial professional, the window of opportunity to act before taxes are hiked is about to close. The plan to end the step-up in basis on inheritances is perhaps the most significant change.

Other tax proposals President Biden

campaigns on include a sharp reduction in the favorable treatment on profits from investments, a new top tax rate of 39.6%, and an expansion of the 12.4% Social Security tax on tax-filers who earn more than \$400,000 in adjusted gross income annually.

At the time this was written, the details of the new taxes

were still unknown. The elimination of the step-up in basis was still an open question but politics were dictating the timeline and dimensions of the tax changes.

It's possible the tax hikes about to be negotiated in Congress could be retroactive, which would render

defensive planning measures fruitless. That's unlikely, but the window of opportunity to act is closing.

If your annual income is higher than \$400,000 or your family has an estate worth more than \$3.5 million, please let us know if you have questions. ●



## Six Key Documents

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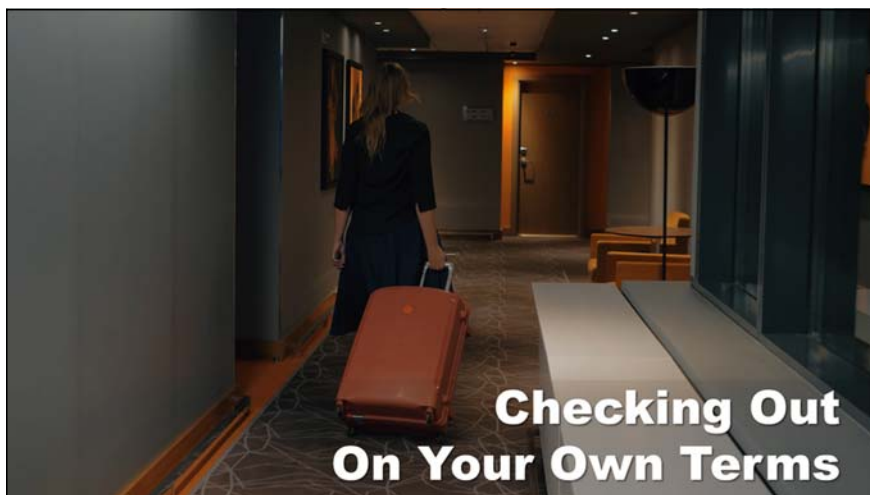
die and who will have custody of any minor children. You also could use it for other purposes such as making charitable donations and creating trusts.

If you die without a will—"intestate," in legal parlance—the laws of your state will determine who gets your assets and assumes guardianship of young children. As the centerpiece of your estate plan, this is definitely one tool you can't be without.

Drawing up documents is left to legal professionals but coordinating the drafting of these documents with your attorney to ensure your final objectives in life are met after your death is often

the province of a trusted financial advice professional, as is assuming powers over your financial affairs should you ever become incapacitated and quarterbacking a team of professionals.

How to best invest your final assets in the people and beliefs you hold most dear requires your most careful consideration and planning and is not a responsibility we take on lightly. If you have questions about going out on your own terms that you set out, please don't hesitate to contact us. ●



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