The Puritan Valley Group of Oppenheimer & Co. Inc.

Jeff Montville & Jim Stevens
The Puritan Valley Group of Oppenheimer
466 Heritage Road
Suite C
203-264-6511
203-328-1194
PuritanValley.Group@opco.com
https://www.oppenheimer.com/thepuritanvalleygroup/index.aspx

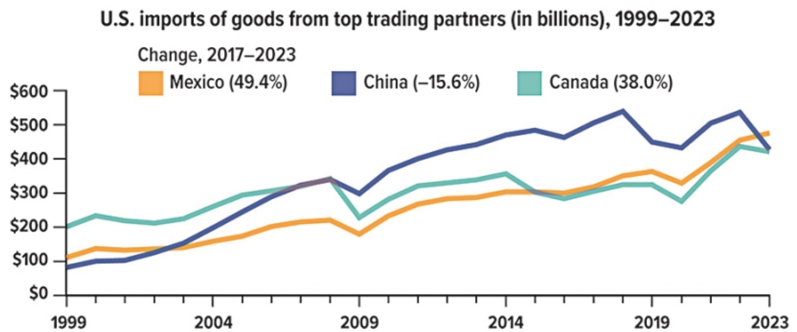
20X

Increase in the use of terms such as *decoupling, derisking, reshoring, nearshoring,* and *friendshoring* in U.S. corporate presentations between 2018 and 2020.

Source: McKinsey Global Institute, 2024

Friend or Foe? Trade Shifts Reflect Geopolitical Risks

In 2023, the United States bought more goods from Mexico than China for the first time since 2002. In 2017, the Trump administration placed steep tariffs on many Chinese products. These levies, which were kept by the Biden administration, make the cost of goods from China less competitive against U.S. products and those imported from nations with free trade agreements. The pandemic, the war in Ukraine, and attacks in the Red Sea have all disrupted supply chains and provided further impetus to reconfigure trade strategies.



Sources: U.S. Census Bureau, 2024; McKinsey Global Institute, 2024

Thinking of Selling Your Home? Don't Be Surprised by Capital Gains Taxes

The Taxpayer Relief Act of 1997 provided homeowners who sell their principal residence an exclusion from capital gains taxes of $250,000 for single filers and $500,000 for joint filers. At that time, the average price of a new home was about $145,000, so this exclusion seemed generous and allowed more Americans to move freely from one home to another.[1] Unfortunately, the exclusion was not indexed to inflation, and what seemed generous in 1997 can be restrictive in 2024.

Capital gains taxes apply to the profit from selling a home, so they may be of special concern — and potential surprise — for older homeowners who bought their homes many years ago and might yield well over $500,000 in profits if they sell. In some areas of the country, a home bought for $100,000 in the 1980s could sell for $1 million or more today.[2] At a federal tax rate of 15% or 20% (depending on income) plus state taxes in some states, capital gains taxes can take a big bite out of profits when selling a home. Fortunately, there are some things you can do to help reduce the taxes.

Qualifying for exclusion

In order to qualify for the full exclusion, you or your spouse must own the home for at least two years during the five-year period prior to the home sale. You AND your spouse (if filing jointly) must live in the home for at least two years during the same period. The exclusion can only be claimed once every two years. There are a number of exceptions, including rules related to divorce, death, and military service. If you do not qualify for the full exclusion, you may qualify for a partial exclusion if the main reason for the home sale was a change in workplace location, a health issue, or an unforeseeable event.

Increasing basis for lower taxes

The capital gain (or loss) in selling a home is determined through a two-part calculation. First, the selling price is reduced by direct selling costs, including certain fees and closing costs, real estate commissions, and certain costs that the seller pays for the buyer. (The amount of any mortgage pay-off is not relevant for determining capital gains.) This yields the *amount realized,* which is then reduced by the *adjusted basis.*

The basis of your home is the amount you paid for it, including certain costs related to the purchase, plus the costs of improvements that are still part of your home at the date of sale. In general, qualified improvements include new construction or remodeling, such as a room addition or major kitchen remodel, as well as repair-type work that is done as part of a larger project. For example, replacing a broken window would not increase your basis, but replacing the window as part of a project that includes replacing all windows in your house would be eligible. This basis is adjusted by adding certain payments, deductions, and credits such as tax deductions and insurance payments for casualty losses, tax credits for energy improvements, and depreciation for business use of the home. (See hypothetical example.)

Hypothetical Example

Pete and Joanne purchased their home for $100,000 in 1985 and sold it for $800,000 in 2024. This is how their capital gains might be calculated.

Capital gains	Basis
$800,000 sales price	$100,000 purchase price
– $50,000 direct selling costs	+ $8,000 purchase costs
$750,000 amount realized	+ $52,000 improvements
– $150,000 adjusted basis	$160,000 total basis
$600,000 capital gain	– $10,000 solar energy credit
– $500,000 capital gains exclusion	$150,000 adjusted basis
$100,000 taxable gains	
At a 15% rate — which applies to most taxpayers — this would cost $15,000 in federal capital gains taxes.	

This hypothetical example of mathematical principles is for illustration purposes only. Actual results will vary.

Inheriting a home

Upon the death of a homeowner, the basis of the home is *stepped up* (increased) to the value at the time of death, which means that the heirs will only be liable for future gains. In community property states, this usually also applies to a surviving spouse. In other states, the basis for the surviving spouse is typically increased by half the value at the time of death (i.e., the value of the deceased spouse's share).

Determining the capital gain on a home sale is complex, so be sure to consult your tax professional. For more information, see IRS Publication 523 *Selling Your Home.*

1) U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis, 2024

2) CNN, January 29, 2024

Insurance Gaps May Pose Risks for High-Net-Worth Households

Serious accidents don't happen very often, but when they do, the impact can be devastating. And unfortunately, you could be held legally responsible if a member of your household causes a car wreck or if someone is injured on your property, even if you go to great lengths to help make your home and the surrounding area safe for visitors.

If you have teenagers who drive, employ household workers, own a pool or trampoline, entertain often, coach youth sports, or are a public figure, the odds are even higher that you could become the target of a lawsuit. Of course, the wealthier you are, the more you stand to lose if a liability claim is filed against you. It's important to reassess your liability coverage periodically and make sure it's sufficient based on your family's financial situation, lifestyle, and the related risks.

Is your umbrella big enough?

Standard homeowners and auto insurance policies generally cover personal liability, but you may not have enough coverage to protect your income and assets in the event of a high-dollar judgment. That's where an umbrella policy comes into the picture, providing an extra layer of financial protection against lawsuits claiming that you or a member of your household is liable for bodily injury or damage to the property of others (up to policy limits).

To purchase an umbrella policy, you must first have a certain amount of liability coverage in place on your homeowners/renters and auto insurance (typically $300,000 and $250,000, respectively), which serve as a deductible for the umbrella policy. An umbrella policy will commonly provide liability coverage worth $1 million to $10 million.

One general guideline is to have liability coverage in place that matches your net worth. This includes assets such as savings and investment accounts, cars, valuable art and collectibles, plus the equity in your home and/or any other real estate that you own. You may want to add the value of your projected stream of future income. (Qualified retirement plan assets may have some protection from civil liability under federal and/or state law, depending on the plan and jurisdiction.)

What's covered and what isn't?

An umbrella policy may help pay legal expenses and compensation for time off from work to defend yourself in court. It might also cover some nonbusiness-related personal injury claims that are typically excluded from standard homeowners policies, such as libel, slander, invasion of privacy, and defamation of character.

A personal umbrella policy may not cover your own injuries or damage to your property; nor will it cover liability associated with your business — for that, you may need a commercial umbrella policy. You generally won't be covered if you hurt someone on purpose, commit a crime, or breach a contract. Read your policy carefully for other possible exclusions, such as injury claims involving some breeds of dogs.

One general guideline is to have liability coverage in place that matches your net worth.

Do these situations apply to you?

Household help. If you have a nanny, housekeeper, or other employees who work at your home, workers compensation insurance is typically required by law. A type of coverage known as employment practice liability insurance, which covers claims such as harassment, wrongful termination, and discrimination, may also be available.

Special events. If you host parties where alcohol is served, always take steps to moderate guests' drinking and don't let anyone drive home intoxicated. Consider purchasing a special event policy designed to help limit your exposure if you host a costly event, such as a wedding, at your home or another venue.

Proper names. If you establish a trust or limited liability company (LLC) for the ownership of certain assets, make sure the named owner is accurately reflected in insurance policies meant to protect those assets. To ensure coverage for an automobile, for example, the name on the policy should match the registration. Property purchased through an LLC should generally be insured by the LLC, with the individual as an additional named insured.

The IRS Wants More Info About Your Gig Income

If you earn money through a payment app or online marketplace, you may be affected by a tax reporting change enacted by the 2021 American Rescue Plan. The law requires third-party settlement organizations to report business transactions totaling over $600 per year by issuing a Form 1099-K to the taxpayer and the IRS. The previous reporting threshold was much higher ($20,000 and 200 business transactions).

This change was delayed for the 2023 tax year because it could trigger frustrating unintended consequences. According to the Internal Revenue Service, an estimated 44 million taxpayers might have received unexpected 1099-K forms — with amounts that may not have been taxable. To provide more lead time, the agency announced plans to drop the threshold from $20,000 to $5,000 in 2024 (without regard to the total number of transactions) as part of a phase-in of the $600 threshold.

Here are a few more things that may be helpful to know about this far-reaching new rule.

It's not personal. Business transactions are payments for goods or services, including tips. Money received from the online sale of personal items (like old clothing or furniture), which are normally sold at a loss, is not taxable and generally doesn't need to be reported. However, those in the business of reselling goods for a profit should carefully track the original costs of their purchases. Payment apps are not required to report personal transactions intended as gifts or to split costs. The payer will typically be asked to note nonbusiness transactions.

It's not a tax change. Taxpayers who sell goods, rent out a vacation home, walk dogs, or perform any other type of freelance work through digital platforms were already responsible for self-reporting all income on their tax returns regardless of the threshold. But now the IRS can cross-reference the information sent by third parties with the reported amounts.

It's not foolproof. This change could still cause confusion and costly mistakes. If a payer (such as a roommate making a shared rent payment) accidently clicks on the wrong box, the recipient could receive a Form 1099-K in error. A freelancer might receive a Form 1099-K from the payment processor and a Form 1099-MISC from the client for the same transaction. In such cases, the taxpayer may need to contact the issuer, and if a discrepancy is not corrected, the reported amount can be adjusted with a notation on the tax return.

Using separate accounts for business and personal digital transactions and keeping organized records will help ensure that your tax return is accurate, so you don't overpay or raise red flags with the IRS. If you have questions about how the new rule might affect you, don't hesitate to consult a qualified tax professional.

The content herein should not be construed as an offer to sell or the solicitation of an offer to buy any security. The information enclosed herewith has been obtained from outside sources and is not the product of Oppenheimer & Co. Inc. ("Oppenheimer") or its affiliates. Oppenheimer has not verified the information and does not guarantee its accuracy or completeness. Additional information is available upon request. Oppenheimer, nor any of its employees or affiliates, does not provide legal or tax advice. However, your Oppenheimer Financial Advisor will work with clients, their attorneys and their tax professionals to help ensure all of their needs are met and properly executed. Oppenheimer & Co. Inc. Transacts Business on all Principal Exchanges and is a member of SIPC.

Prepared by Broadridge Investor Communication Solutions, Inc. Copyright 2024