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VIRGINIA ASSET GROUP

Summer is once again upon us and Covid is hopefully soon in the rear-view mirror. I hope we can all enjoy each other's company without any restrictions again soon. I'm available when you need me so please don't hesitate to reach out with any questions or concerns. As always, thank you for your continued trust in my team and me. Darin, Emily, Emily

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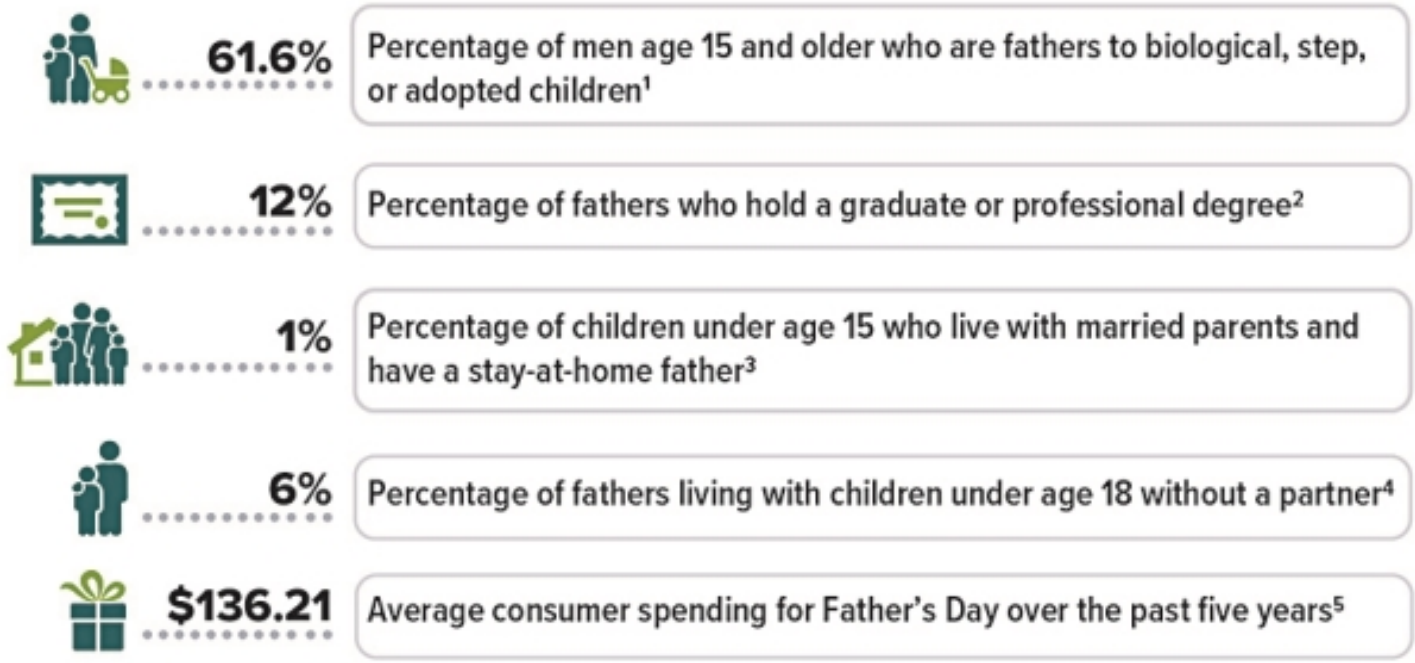
Five Facts About Fatherhood

June 20, 2021 marks not only the start of the summer season. It's also Father's Day, a special day to celebrate dear old dad. Here are five facts about fatherhood in honor of the occasion.



Sources: 1-2) U.S. Census Bureau, 2019 (most recent data available); 3-4) U.S. Census Bureau, 2020; 5) National Retail Federation, 2020

Considerations When Making Gifts to Children

If you make significant gifts to your children or someone else's children (perhaps a grandchild, a nephew, or a niece), or if someone else makes gifts to your children, there are a number of things to consider.

Nontaxable Gift Transfers

There are a variety of ways to make transfers to children that are not treated as taxable gifts. Filing a gift tax return is generally required only if you make gifts (other than qualified transfers) totaling more than $15,000 per individual during the year.

- **Providing support.** When you provide support to a child, it should not be treated as a taxable gift if you have an obligation to provide support under state law. Parents of minor children, college-age children, boomerang children, and special-needs children may find this provision very useful.
- **Annual exclusion gifts.** You can generally make tax-free gifts of up to $15,000 per child each year. If you combine gifts with your spouse, the amount is effectively increased to $30,000.
- **Qualified transfers for medical expenses.** You can make unlimited tax-free gifts for medical care, provided the gift is made directly to the medical care provider.
- **Qualified transfers for educational expenses.** You can make unlimited gifts for tuition free of gift tax, provided the gift is made directly to the educational provider.

For purposes of the generation-skipping transfer (GST) tax, the same exceptions for nontaxable gift transfers generally apply. The GST tax is a separate tax that generally applies when you transfer property to someone who is two or more generations younger than you, such as a grandchild.

Income Tax Issues

A gift is not taxable income to the person receiving the gift. However, when you make a gift to a child, there may be several income tax issues regarding income produced by the property or from sale of the property.

- **Income for support.** Income from property owned by your children will be taxed to you if used to fulfill your obligation to provide support.
- **Kiddie tax.** Children subject to the kiddie tax are generally taxed at their parents' tax rates on any unearned income over $2,200 (in 2021). The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.
- **Basis.** When a donor makes a gift, the person receiving the gift generally takes an income tax basis equal to the donor's basis in the gift. The income tax basis is generally used to determine the amount of taxable gain if the child then sells the property. If instead the property were transferred to the child at your death, the child would receive a basis stepped up (or down) to the fair market value of the property.

Gifts to Minors

Outright gifts should generally be avoided for any significant gifts to minors. For this purpose, you might consider a custodial gift or a trust for a minor.

- **Custodial gifts.** Gifts can be made to a custodial account for the minor under your state's version of the Uniform Gifts/Transfers to Minors Acts. The custodian (an adult or a trust company) holds the property for the benefit of the minor until an age (often 21) specified by state statute.
- **Trust for minor.** A Section 2503(c) trust is specifically designed to obtain the annual gift tax exclusion for gifts to a minor. Principal and income can (but need not) be distributed to the minor before age 21. The minor does generally gain access to undistributed income and principal at age 21. *(The use of trusts involves a complex web of tax rules and regulations, and usually involves upfront costs and ongoing administrative fees. You should consider the counsel of an experienced estate professional before implementing a trust strategy.)*

Transfer by Gift Versus Transfer at Death

Difference in taxable gain when appreciated property is sold at fair market value (FMV) after the transfer.

Calculation Steps	Transfer by Gift	Transfer at Death
Sales price (FMV)	$100,000	$100,000
– Income tax basis	– $20,000 (carryover of donor's basis)	– $100,000 (stepped-up to FMV)
Taxable gain	= $80,000	= $0

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.

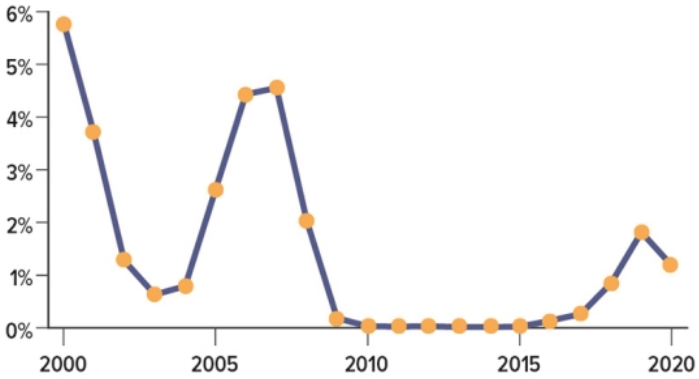
Money market funds are typically used as the "sweep account" for clearing brokerage transactions, and investors often keep cash proceeds in the fund on a temporary basis while looking for another investment. In a volatile market, it's not unusual to see large shifts into money market funds as investors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

Annual Returns on Money Market Mutual Funds



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)

Three Reasons to Keep Your Personal and Business Finances Separate

If you are launching a new venture, you may wonder whether it's necessary to open a dedicated bank account for your business. Even if your company is established and already has separate checking and credit-card accounts, you may be tempted to pay business expenses from personal accounts on occasion — or vice versa — particularly during tough times.

The more your business and personal outlays become entwined, the harder it is to manage your company's cash flow, payroll, and taxes. It might also be difficult to keep tabs on the company's financial performance.

Here are three key reasons to draw a clear line between your business and personal finances — and do your best never to cross it.

To Increase Purchasing and Borrowing Power

To open a business bank account, you may be required to obtain an Employer Identification Number (EIN) from the Internal Revenue Service. Building a relationship with a bank that serves small businesses might provide access to other important financial services and resources, such as a merchant account, a line of credit, and a business credit card.

Using a business credit card responsibly is one way to establish the positive credit history that could help you qualify for larger business loans with better rates and terms, and without personal guarantees, in the future.

To Make Life Easier at Tax Time

Maintaining separate bank and credit accounts means you won't have to spend time sorting business purchases from personal ones.

As a small-business owner or independent contractor, you may be eligible for a long list of tax deductions that don't apply to regular wage earners. Careful tracking of your business expenses can help you and your tax professional take full advantage of deductions and reduce your tax burden.

To Protect Personal Assets

If your business struggles, it could pose a threat to your personal assets and credit. Paying business expenses directly from personal accounts might help substantiate a creditor's claim that your business was being run improperly.

Keeping your financial accounts separate may be especially critical if your business is incorporated as a C corp, an S corp, or a limited liability company (LLC). The corporate veil, which refers to the legal distinction between a corporation and its owners, is designed to protect the owners from liability related to the company's actions. However, commingling personal and business funds could pierce the corporate veil and leave your personal assets vulnerable to business debts, losses, and lawsuits.