Willson & Pechacek, P.L.C. Newsletter

General Issue		JUNE 2021

Good Credit in Bad Times?

By Jamie L. Cox

If you've looked at credit scores lately, you might think that despite causing an economic downturn, the pandemic has helped people become more financially stable — and you wouldn't be entirely wrong. Although millions of Americans were laid off, lost employer-based health insurance, and skipped debt payments, credit scores rose to record levels. At the start of 2020, the average credit score was 703 (on a scale from 300 to 850). By October, it increased to 711. This makes sense given all of the government stimulus programs and relief measures, coupled with the fact that people cut back on spending due to coronavirus restrictions and business shutdowns.

For some people, increased credit scores can be traced to deals worked out with lenders and credit card companies to delay or lower monthly payments. The CARES Act requires lenders to report the accounts as current or "paid as agreed," which means credit scores won't decrease if the agreed payments are made. But the Act will end 120 days after Congress or the President declares an end to the pandemic, and people could then be in for a rude awakening: their lenders and credit card companies could demand full repayment and, if unable to repay, credit scores could nose-dive.

Some people have used stimulus checks and enhanced unemployment benefits to pay down debt. Others have utilized only a small portion of their credit limits because they aren't traveling or dining out as much. Others have freed up cash by temporarily not making student loan and mortgage repayments. All of this boosted credit scores, but we should not get too used to it. As more people get vaccinated, life will slowly return to normal—or, at least a new normal—and it's unlikely that stimulus checks, enhanced unemployment benefits, and lender forbearance will continue to protect credit scores.

People with financial struggles can take steps to repair their credit. The first step is knowing their credit score by checking credit reports from the credit bureaus, Experian, Equifax and TransUnion. It's important to check credit reports for errors. It will take time for negative items to fall off a credit report, usually seven to ten years.

The second step is understanding the components of a credit score: (1) payment history; (2) balance owed; (3) length of credit history; (4) type of credit; and (5) new credit inquiries. Payment history details the track record of paying back debts on time. This includes payments on credit cards, retail accounts, installment loans (such as automobile or student loans), finance company accounts and mortgages. Public records of bankruptcies, foreclosures, suits, liens, judgments and wage attachments also are considered. A history of prompt payments of at least the minimum amount due helps a credit score, whereas late or missed payments hurt the score.

The balance owed reveals how deep in debt a person is, and contributes to determining if they can handle what is owed. High balances or nearly "maxed out" credit cards hurt a credit score. A good rule of thumb is not to exceed 30% of a credit card limit. Paying down a loan helps a credit score. For example, if $20,000 is borrowed to buy a car and $5,000 has been timely repaid, even though $15,000 is still owed on the original loan, the payment pattern demonstrates responsible debt management, which helps a credit score.

The length of credit history refers to how long a person has had and used credit. The longer the history of responsible debt management (payments made on

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Iowa Enacts Uniform Custodial Trust Act

By Paul S. Wilson

The Iowa Legislature passed and Governor Reynolds signed on March 8, 2021, Senate File 240, which establishes the Uniform Custodial Trust Act in Iowa. This new law will be effective July 1, 2021.

The Uniform Custodial Trust Act was drafted by the National Conference of Commissioners on Uniform State Laws in 1987 and its purpose is to enable anyone the ability to establish a kind of trust to control property upon the person's disability and to avoid probate when the person passes away. The Act was designed to offer a very simplified trust, making the benefits of trusts available to people without extensive financial assets.

The main benefit of this type of custodial trust is that it is inexpensive to create. The drafters believe that fees for consultation and drafting will be minimal in most cases. Additionally, and importantly in Iowa, this Act provides an alternative to a costly court-supervised conservator or guardian proceedings.

With a new law that went into effect on January 1, 2020, guardianships and conservatorships in Iowa have become dramatically, and in many cases, prohibitively, more costly and time consuming. These custodial trusts can also be used to avoid probate proceedings and costs, with respect to any property titled in the trust, at death.

A custodial trust can be set up by simple language referencing the statute. The Uniform Act includes sample language, which is designed to be simpler than a typical trust instrument. Anyone who creates a custodial trust can maintain control over the trust property until incapacity or death. The named trustee manages the property in the case of incapacity or death, but the trust's creator can retain control unless and until incapacitated.

The trust's creator and beneficiary may direct the management of the property, receive income and principal and can terminate the trust. Any kind of property, real or personal, can be placed in the custodial trust. Anyone can be made a beneficiary and any legally competent person can be appointed as trustee.

If you have any questions about custodial trusts as recently enacted in Iowa, please feel free to contact one of our firm's attorneys.

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time, every time), the higher the score will be because lenders have a better opportunity to see the repayment pattern.

The type of credit concerns the "mix" of credit that a person accesses, including credit cards, retail accounts, installment loans, finance company accounts and mortgage loans. A person does not need each type of account. Instead, this factor considers the various types of credit a person has and whether they use the credit appropriately. For example, using a credit card to purchase a boat hurts a credit score.

New credit inquiries suggest a person is about to take on more debt. Opening many credit accounts in a short amount of time is risky, especially for people who don't have a long-established credit history, because each application counts as a "hard" hit inquiry. If applying for numerous credit cards in a short period of time, it counts as multiple hard hits. However, checking your own credit report, requests from lenders for "pre-approved" credit offers, and requests from employers are "soft" hits that do not affect the score.

Ultimately, living within your means, using debt wisely, and timely paying all bills are smart financial moves that can lead to higher credit scores, in good times and in bad.

2021 Iowa Tax Law Update

By Lee M. Rankin

On June 16, 2021 Governor Reynolds signed into law a bill providing a number of changes to Iowa law, included within the bill was a number of tax law changes. Here are the highlights:

Inheritance Tax Phase-Out. Iowa imposes an inheritance tax on non-spouse or non-lineal beneficiaries. As part of this bill, Iowa's inheritance tax will be reduced 20 percent each year beginning with those passing after January 1, 2021 and will be completely eliminated for deaths on or after January 1, 2025.

Bonus Depreciation. Historically, Iowa has not "coupled" with Federal law regarding the use of bonus depreciation, a method to expense a percentage of the purchase price of certain capital assets. For assets purchased on or after January 1, 2021, Iowa now "couples" with Federal law. Through 2022, bonus depreciation allowed is 100 percent and it will be reduced ratably by 20 percent each year until 2027, when it will no longer be available.

Childcare Credits. Previously, Iowa's Child and Dependent Care Credit and the Early Childhood Development Tax Credit were only allowed to those who made $45,000 or less. Beginning January 1, 2021, it is available to those whose net income is $90,000 or less.

Beginning Farmer Tax Credit. Beginning January 1, 2022, this familiar tax credit has been expanded by including farm structures within the definition of agricultural assets and allows taxpayers to participate for up to 15 years. Also, landlords may enter into leases with multiple beginning farmers and the tax credit limit of $50,000 is now applied to each agreement per year instead of the total of all agreements.

Iowa Tax Rate Change. Beginning January 1, 2023, individual tax brackets will be condensed from nine brackets to four with the top rate lowered from 8.43 percent to 6.5 percent. As part of the give and take, Federal income tax payments made after 2022 will no longer be deductible, and the Iowa Capital Gains Deduction will be limited further, in addition to the current requirements, to the sale of real property used in a farming business sold to lineal descendants (and certain others).

These are just a few of the items within the recent law change. If you have any questions about this or any other matter, please be sure to call our office.

Covid Vaccination Tax Credit Now Available for Small Businesses

By Paul S. Wilson

The American Rescue Plan Act of 2021 (ARP) allows small and midsize employers to claim refundable tax credits as reimbursement for the cost of providing paid leave to employees due to COVID-19, including to receive or recover from COVID-19 vaccinations. These tax credits reimburse the employer for its share of the Medicare tax and it is fully refundable. These credits are available from April 1, 2021 until September 30, 2021.

Any business with fewer than 500 employees is eligible for the credit. The tax credit is available to be taken by employers whose employees were not able to work due to COVID-19, including to receive or recover from the COVID-19 vaccines.

The amount of the tax credit for paid sick leave equals the sick leave wages paid for COVID-19 related reasons for up to 80 hours, but is limited to $511 per day and $5,110 in the aggregate, at 100 percent of an employee's pay rate. The tax credit for paid family leave wages equals the family leave wages paid for up to 12 weeks, but is limited to $200 per day and $12,000 in the aggregate, at two-thirds an employee's pay rate.

To claim these tax credits, employers report their total paid sick and family leave wages for each quarter on their federal employment tax return, usually Form 941 or 943. An employer may also request an advance of the credits by filing Form 7200. The employer will account for the amounts received as an advance when it files its Form 941 or 943. Self-employed individuals can also claim similar tax credits on their individual Form 1040.

If you have any questions about the tax credits available under the American Rescue Plan Act of 2021, please contact one of our firm's attorneys.

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2021 Summer Associate: Ryan Daisy

Ryan is our current summer associate at the firm. This fall he will be entering his final year of law school at the University of Iowa College of Law. He currently serves as president of the Rural Interest Group and is this year's Executive Director of the Moot Court Board. He has received law school awards for being top of the class in Trusts & Estates, Torts, and The Law of War, Peace, and Military Affairs. He received his undergraduate degree from the University of Northern Iowa, where he graduated summa cum laude in 2018 with a Bachelor of Arts in the study of religion. Ryan is originally from Lake City, Iowa.

PLEASE NOTE:

Willson & Pechacek no longer has a P.O. Box. Please update this information on automated billing payments, 1099s, etc. Send all correspondence to the physical street address:

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