Last, But Not Least: Tax Considerations for Life’s Milestones

March 1, 2023
Reminder:

Life Lessons webinars are designed to provide an overview of matters you may wish to consider at different stages of life.

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The speaker is not engaged in the practice of rendering audit, tax, consulting, business, financial, investment, legal or other professional advice. The services of a qualified professional advisor should be sought before taking any action based on the presentation.
Life’s Milestones
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→ First Steps: Finding your financial footing

→ All’s Fair in Love and Money: Money and personal relationships

→ Building and Protecting Your Nest

→ Getting Your Ducks in a Row: Documents and discussions

→ Ready, Set, Retire: Planning for your golden years

→ Death is in the Details
Life Lessons Webinar #1

First Steps: Finding your financial footing

- Employer Provided Fringe Benefits
- Health and Life Insurance
- Retirement Plans
- Cafeteria Plans
- Assistance Plans
Employer Provided Fringe Benefits: Health and Life Insurance

→ Health insurance
  • Premiums paid by employer are not taxable
    • Includes long-term care insurance
  • Itemized deductions for
    • Premiums paid by employee
      • Disability and life insurance premiums not deductible
    • Out-of-pocket expenses for co-pays, co-insurance and deductibles
    • Must exceed Adjusted Gross Income (AGI) floor of 7.5%
    • Must not be paid by a flexible spending account or health savings account
  • CAUTION: Self-employed individuals eligible under spouse’s plan

→ Group-term life insurance
  • Premiums for $50,000 of coverage are not taxable
Employer Provided Fringe Benefits: Retirement Plans

→ Retirement plan contributions
  • Employer contributions: tax-deferred income
  • Employee contributions: tax-deferred income
  • Earnings are tax-deferred until withdrawn
  • May be in lower tax bracket in retirement

→ Employer “match”

→ SECURE 2.0 legislation (“Setting Up Every Community for Retirement Enhancement”)
  • Roth 401(k) employer match (2023)
  • Student loan payment matching (2024)
  • Emergency savings accounts and withdrawals (2024)
  • Catch-up contributions enhanced (2025)
  • Saver’s Credit (2027)

→ Social Security Employer match = 7.65%
Employer Provided Fringe Benefits: Cafeteria Plans

- Employees choose between taking cash (taxable) or benefits that are not taxable ("pre-tax")

- Flexible spending account (FSA): “Use it or lose it!”
  - Health insurance and medical expenses
  - Daycare
  - Adoption assistance

- Health savings account (HSA)
  - Medical expenses for a high-deductible plan

- Disability insurance
  - Disability benefits received are taxable if employer pays premiums
  - Employee should pay premiums “after-tax”

- Group-term life insurance
Employer Provided Fringe Benefits: Assistance Plans

➔ Employer paid benefits are not taxable income

➔ Dependent Care: $5,000 maximum each year

➔ Educational Assistance Programs: $5,250 maximum per year
  • Includes student loan payments through 2025
  • Undergraduate or graduate-level courses
  • Need not be job related unless involve sports, games or hobbies
All’s Fair in Love and Money: Money and personal relationships

• Income Tax Return Filing Status
  • Why does it matter?
  • Determined by marital status
• Non-tax considerations
• Divorce
Income Tax Return Filing Status: Why does it matter?

- Determines
  - Tax rates
  - Standard deduction (in lieu of itemized deductions)
  - Tax credits
  - Other tax benefits

- Determined by marital status and "dependents"
  - No deduction for personal exemptions or dependents: through 2025
Income Tax Return Filing Status: Determined by marital status

➔ Married filing jointly
  • Married status on December 31st
  • Unmarried surviving spouse considered married at year end

➔ Qualifying widow or widower (surviving spouse)
  • Considered married for two years after year of death of spouse
  • Must not remarry
  • Must maintain household for a “dependent child” living in the home

➔ Head of household
  • Unmarried
  • Must maintain household for a “qualified person”

➔ Single
  • Unmarried
  • May qualify for Head of Household

➔ Married filing separately
## Tax Rate Schedule: 2022
### Ordinary Income

<table>
<thead>
<tr>
<th>Tax Bracket/ Filing Status</th>
<th>Single</th>
<th>Married Filing Jointly or Surviving Spouse</th>
<th>Married Filing Separately</th>
<th>Head of Household</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0-$10,275</td>
<td>$0 - $20,550</td>
<td>$0-$10,275</td>
<td>$0 - $14,650</td>
</tr>
<tr>
<td>12%</td>
<td>$10,275 - $41,775</td>
<td>$20,550 - $83,550</td>
<td>$10,275 - $41,775</td>
<td>$14,650 - $55,900</td>
</tr>
<tr>
<td>22%</td>
<td>$41,775 - $89,075</td>
<td>$83,550 - $178,150</td>
<td>$41,775 - $89,075</td>
<td>$55,900 - $89,050</td>
</tr>
<tr>
<td>24%</td>
<td>$89,075 - $170,050</td>
<td>$178,150 - $340,100</td>
<td>$89,075 - $170,050</td>
<td>$89,050 - $170,050</td>
</tr>
<tr>
<td>32%</td>
<td>$170,050 - $215,950</td>
<td>$340,100 - $431,900</td>
<td>$170,050 - $215,950</td>
<td>$170,050 - $215,950</td>
</tr>
<tr>
<td>35%</td>
<td>$215,950 - $539,900</td>
<td>$431,900 - $647,850</td>
<td>$215,950 - $323,925</td>
<td>$215,950 - $539,900</td>
</tr>
<tr>
<td>37%</td>
<td>Over $539,900</td>
<td>Over $647,850</td>
<td>Over $323,925</td>
<td>Over $539,900</td>
</tr>
</tbody>
</table>
## Tax Rate Schedule: 2022
Capital Gains & Qualified Dividends

<table>
<thead>
<tr>
<th>Tax Bracket/Filing Status</th>
<th>Single</th>
<th>Married Filing Jointly or Surviving Spouse</th>
<th>Married Filing Separately</th>
<th>Head of Household</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>$0-$41,675</td>
<td>$0 - $83,350</td>
<td>$0-$41,675</td>
<td>$0-$55,800</td>
</tr>
<tr>
<td>15%</td>
<td>$41,676 - $459,750</td>
<td>$83,351 - $517,200</td>
<td>$41,676 - $258,600</td>
<td>$55,800 - $488,500</td>
</tr>
<tr>
<td>20%</td>
<td>$459,751+</td>
<td>$517,201+</td>
<td>$258,601+</td>
<td>$488,501+</td>
</tr>
</tbody>
</table>
# Standard Deduction

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Married filing jointly</td>
<td>$25,900</td>
<td>$25,100</td>
<td>$24,800</td>
<td>$24,400</td>
<td>$24,000</td>
<td>$13,000</td>
</tr>
<tr>
<td>Qualifying widow or widower</td>
<td>$25,900</td>
<td>$25,100</td>
<td>$24,800</td>
<td>$24,400</td>
<td>$24,000</td>
<td>$13,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$12,950</td>
<td>$12,550</td>
<td>$12,400</td>
<td>$12,200</td>
<td>$12,000</td>
<td>$  6,500</td>
</tr>
<tr>
<td>Head of household</td>
<td>$19,400</td>
<td>$18,800</td>
<td>$18,650</td>
<td>$18,350</td>
<td>$18,000</td>
<td>$  9,550</td>
</tr>
<tr>
<td>Single</td>
<td>$12,950</td>
<td>$12,550</td>
<td>$12,400</td>
<td>$12,200</td>
<td>$12,000</td>
<td>$  6,500</td>
</tr>
</tbody>
</table>

Increase in standard deduction offsets loss of deduction for personal and dependency exemptions through 2025

- Example: (2) parents + (1) child = $4,000 x 3 = $12,000

Intended to reduce IRS examinations of itemized deductions
Income Tax Return Filing Status: Non-tax considerations

→ Married filing separately does not provide tax advantages
  • EXCEPTION: One spouse has significant uninsured medical expenses

→ Married filing separately may be beneficial for non-tax reasons
  • No joint & several liability
    • “Spendthrift” spouse
    • Spouse with separate debt; bankruptcy history
    • “Innocent spouse” vs. ignorant spouse
  • Prenuptial agreement
    • Separate wealth
    • Second marriage
    • Use of pre-nuptial does not require married filing separately

→ Federal and state laws regarding marriage
Income Tax Return Filing Status: Divorce

→ Property settlement
  • Transfers between spouses are “gifts”
  • Gifts are not taxable income to recipient
  • Gifts are not deductible by the payer

→ Child support
  • Not taxable income to recipient
  • Not deductible by the payer

→ Alimony
  • Divorce decrees dated January 1, 2019, and after
  • Not taxable income to recipient
  • Not deductible by the payer

→ Dependents
  • Usually claimed by custodial parent
  • Form 8332: one parent grants exemption to the other
Life Lessons Webinar #3

Building and Protecting Your Nest

• Home Ownership
• Raising Your Family
• Education Expenses
• Section 529 Plans
• Financial Protection
Home Ownership

→ Mortgage interest expense
  • Primary and secondary home acquisition
  • Debt secured by residence: “acquisition debt, home equity loan, home equity line of credit (HELOC) or second mortgage”
  • Debt used for deduction capped at $750,000
  • After 2025, cap = $1M + $100,000 of home equity debt

→ Real estate property taxes plus state income taxes, personal property taxes limited to $10,000 through 2025 ($5,000 MFS)

→ Utilities, maintenance and insurance: not deductible

→ Casualty losses: not deductible unless in federally declared disaster area through 2025

→ Sale of home: $500,000 of gain may not be taxable for principal residence; Capital gains rates may apply to taxable gain
Raising Your Family

→ No deduction for personal exemptions or dependents through 2025

→ Adoption: $15,950 for expenses in 2023
  • Tax free employer assistance for expenses OR
  • Tax credit

→ Child tax credit
  • $2,000 for each qualifying child under age 17 AND
  • $500 for any other dependent (through 2025)
  • “Additional (refundable) child tax credit” of $1,600 for 2023

→ Daycare expenses
  • $1,050 per child under age 13 or other qualifying dependent
  • Incurred to be gainfully employed
Education Expenses

→ Employer educational assistance $5,250: employee only

→ Scholarships
  • Ignored in determining support of a dependent
  • Taxable if spent for room and board

→ Savings
  • (Coverdell) Education Savings Account a/k/a “Education IRA”
  • Section 529 Plans: states vary for tax deduction, investment options and fees
  • U.S. savings bond interest income not taxable if spent on education

→ Student loans
  • Maximum deduction of $2,500 for interest expense
  • Debt forgiveness

→ Gifts: do not include direct payments to educational institution

→ Tax credits
  • American Opportunity
  • Lifetime Learning
### Section 529 Plans vs. Uniform Gifts/Transfers to Minors (UG/TMA)

#### Section 529 Plan
- Tax treatment
  - Tax-free growth & withdrawals
  - Unlimited annual contributions, may have lifetime limits
  - Contributors may receive income tax benefits for their home state plan
- Beneficiary can be changed anytime
- Adult owns property for FAFSA purposes
- State manages investment options, usually age-based
- Must be used for qualified education expenses
  - Up to $10,000 for K-12 education and student loan payments

#### UG/TMA
- Tax treatment
  - Investment income subject to “Kiddie Tax”
  - Transfers subject to federal gift tax annual limits: $17,000 in 2023
  - Alternative to trust funds for families with limited assets
- Beneficiary cannot be changed anytime
- Child owns property for FAFSA purposes
- No limitations on investment options
- Unrestricted use of funds (not limited to education)
  - Parent is custodian until child reaches age of majority
Financial Protection

→ Trusts: consult an attorney
   • “Spendthrift” children
   • Special needs children

→ Disability insurance
   • Benefits are taxable unless the employee pays the premiums
   • Premiums are not a deductible medical expense

→ Life insurance
   • Not taxable to the beneficiary
   • Premiums are not a deductible medical expense
   • Employer may provide $50,000 group-term coverage

→ Long-term care insurance
   • Premiums are a deductible medical expense up to age-based limit
Getting Your Ducks in a Row: Documents and discussions you need to have

- Legal Documents
- Titling of Accounts
- “Convenience Accounts”
- Beneficiary Designations
Legal Documents

→ Engage an attorney: CPAs cannot “practice law”
  • Financial Power of Attorney
  • Wills
  • Trust documents

→ Income tax consequences

→ Estate and gift tax consequences

→ “Survivor’s Notebook”
Titling of Accounts

- Account holders may override will provisions

- Individual account holders: provisions of the will control

- Joint Tenants with right of survivorship (JTWROS)
  - Commonly used by married couples
  - “Simple” estates not subject to estate tax
  - Override provisions of the will
  - Adding a child for aging parents may be a gift
  - Lose the benefit of “step-up in basis”
“Convenience Accounts”

- Account holder wants security of trusted person having access
  - Example: Adult child assisting elderly parent to pay bills

- Parent does not intend for child to inherit the entire account

- No right of survivorship; ownership transfers pursuant to provisions of the will

- Functions like a Power of Attorney limited to a particular account

- Half the states have adopted the Uniform Multiple-Person Accounts Act
Beneficiary Designations

“Beneficiary designation assets” - transfer upon death via beneficiary form, irrespective of will provisions

- Life insurance
- Qualified retirement plans, i.e., 401k and 403b plans
- Individual retirement accounts (IRAs)
- Annuities

Non-beneficiary designation assets: “after-tax assets”

- Bank accounts
- CDs outside of an IRA
- Brokerage accounts outside of an IRA
Life Lessons Webinar #5

Ready, Set, Retire: Planning for your golden years

- Medical Expenses
- Taxation of Social Security
- Retirement Plan Distributions
- State Residency
Medical Expenses

→ Itemized deduction for:
  • Self-insured/COBRA premiums
  • Medicare Parts B and D
  • Long-term care insurance premiums up to age-based limit
  • Medical portion of long-term care facility charges

→ IRA distributions to fund HSA
  • One-time, tax-free transfer of otherwise taxable IRA distribution
  • Amount limited to annual HSA contribution maximum
    • $7,750 for family in 2023
  • Must be HSA eligible for following 12 months
  • Penalties may apply
Taxation of Social Security

→ Working while receiving Social Security
   • Benefits decrease if you are younger than full retirement age
     • For the entire year: Benefits decrease $1:2 earned in excess of $21,240 (2023)
     • For part of the year: Benefits decrease $1:3 earned in excess of $56,250 (2023)
     • No decrease in benefits upon reaching full retirement age

→ Social Security taxes must be paid on earnings regardless of age or eligibility

→ Social Security benefits received may be taxable if:
   • Adjusted gross income (AGI) + nontaxable interest + 1/2 of Social Security benefits
     = greater than $32,000 (married filing jointly), then up to 50% of benefits are taxable
     = greater than $44,000 (married filing jointly), then up to 85% of benefits are taxable
Retirement Plan Distributions

→ Required minimum distributions (RMD) must be withdrawn over life expectancy after beginning date to avoid penalties

→ Secure 2.0 (new law)
  • RMD age 73 for 2023; age 75 by 2033
  • Roth accounts in employer retirement plans will be exempt from the RMD requirements (2024)
  • Distributions for terminally ill avoid penalties (2022)
  • Roth rollover of $35,000 lifetime limit for Section 529 plans (2022)

→ Qualified Charitable Distributions (QCD) from IRA
  • Age 70½ or over
    • $100,000 tax-free distribution to charity
State Residency

- Changing state of residency upon retirement to avoid state income taxes

- State treatment of taxation of Social Security and retirement plan distributions varies

- Establishing residency: “183-day rule”
  - Own or lease a home in new state and use it as your main residence

- CAUTION: IRS factors to qualify for federal exclusion of $500K gain on sale of “primary residence”
  1. Federal income tax returns: address
  2. Voter registration
  3. Auto registration and insurance
  4. Bills and correspondence
  5. Banking relationships
  6. Social relationships
Life Lessons Webinar #6

Death is in the Details

- Disability and Final Medical Expenses
- Funeral Expenses
- Life Insurance
- Estate and Gift Taxes
Disability and Final Medical Expenses

Financial protection
- Disability insurance: benefits are taxable if you do not pay premiums
- Life insurance: not taxable to the beneficiary
- Long-term care insurance
  - Consider “self-insuring”

Life insurance accelerated death benefits are not taxable income

Retirement plan distributions for terminally ill avoid penalties
- SECURE 2.0 (2022)

Decedent’s medical expenses
- Income tax itemized deduction subject to 7.5% AGI limitation OR
- Estate tax deduction
Funeral Expenses

→ Do not qualify as medical expenses

→ Deductible for estate tax purposes

→ Include:
  • Tombstone
  • Mausoleum
  • Burial lot
Life Insurance

→ In general, proceeds received by beneficiary are not taxable income
  • Interest income accruing on unpaid proceeds are taxable income

→ In general, proceeds of life insurance are included in the estate for estate tax purposes

→ Death benefit from employer is taxable
  • $5,000 exclusion eliminated in 1996
Federal Estate and Gift Taxes

- Estate and gift taxes paid by donor
  - Gifts, inheritances, and life insurance proceeds are not income taxable to the recipient

- Tax Cuts & Jobs Act (TCJA) 2017
  - Doubled estate tax exemption from $5.6M to $11.2M; adjusted for inflation

- Current exemptions/exclusions (2023):
  - Estate tax at death = $12,920,000; $12,060,000 (2022)
  - Gift tax during life = $17,000 per individual per year; $16,000 (2022)
    - Taxable gifts use up estate tax exemption
    - Amounts double for married couples due to “portability” and “gift splitting”

- Estate tax rate tiers: 18% ($10K estate) to 40% for estates > $1M
  - 2020: Only .1% of decedents filed Federal Estate Tax Return; only .04% paid tax

- Future of the “death tax”
  - TCJA changes will “sunset” (expire) in 2026
  - Step-up in basis at risk?
Last, But Not Least:
Tax Considerations for Life’s Milestones

March 1, 2023
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