

RETIREMENT TAX ISSUES

CHAPTER 6

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WHAT IS THE MOST IMPORTANT NUMBER ON A TAX RETURN?

Federal Income Tax

State Income Tax

Health Insurance

- **Premium Tax Credit**
- **Medicare**

Property Taxes

MARGINAL IMPACT OF ADDITIONAL INCOME

<u>With Enhanced Premium Credit</u>		
Social Security	IRA	Marginal Impact
25,000	30,000	
25,000	35,000	39.0%
25,000	40,000	40.4%
25,000	45,000	42.1%
25,000	50,000	51.6%
25,000	55,000	40.0%
25,000	60,000	35.0%
25,000	65,000	69.6%
25,000	70,000	27.8%

<u>Without Enhanced Premium Credit</u>		
Social Security	IRA	Marginal Impact
25,000	30,000	
25,000	35,000	40.2%
25,000	40,000	40.4%
25,000	45,000	37.5%
25,000	50,000	45.8%
25,000	55,000	33.1%
25,000	60,000	164.9%
25,000	65,000	61.2%
25,000	70,000	19.4%

ISSUE 5 – RETIREMENT ACCT DISASTER DISTRIBUTIONS P. 219

Applies to federally declared disaster distributions

- On or after 1/26/2021
- If Qualified, then applies to 401k, 403b and IRAs
- Expanded distribution options & favorable tax treatment
 - Up to \$22,000
 - Exception to the non-qualified distribution penalty

➤ **QUALIFIED INDIVIDUAL**

- Principal residence located in qualified disaster area
 - And suffered an economic loss
- Plan administrator can rely upon individual's information
 - Unless they have actual knowledge to the contrary

DISASTER DISTRIBUTION

P. 219

➤ INCIDENT PERIOD

- Period specified by FEMA

➤ ECONOMIC LOSS

- Examples:

- Loss to real or personal property due to:

- Fire, flood, looting, vandalism, etc.

- Loss related to displacement from home

- Loss of livelihood due to layoff

➤ QUALIFIED DISASTER

- Presidentially declared
 - After 1/26/2021

➤ TIMING OF DISTRIBUTIONS

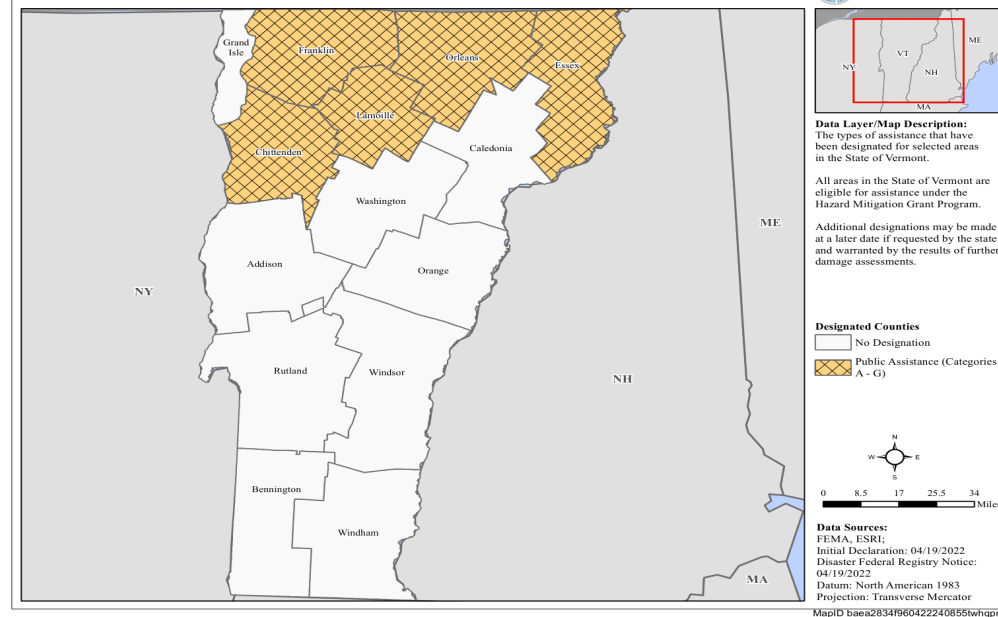
- On or after first day of incident period, AND
- Before date that is 180 days after latest of:
 - 12/29/2022 **or** first day of incident period, **or** date of disaster declaration

SAMPLE REPORT FROM FEMA.GOV SEARCH

Vermont Severe Winter Storm DR-4770-VT

Incident Period: Jan 9, 2024 - Jan 13, 2024
Declaration Date: Apr 19, 2024

FEMA-4770-DR, Vermont Disaster Declaration as of 04/19/2024



TAX ON DISTRIBUTIONS

P. 220

- Qualified disaster distribution maximum = \$22,000
- The plan must allow for the distribution
- Distribution included in income
 - Over a 3-year period (allocated equally)
 - Can make an election to include in year of distribution
- No 10% addl tax due
- **REPORTING DISTRIBUTIONS:**
 - On tax return – Form 8915-F

REPAYMENT OF QUALIFIED DISASTER RECOVERY DISTRIBUTION P 220

- Repayment made to the plan that issued the distribution
- Must complete within 3 years of distribution
- Treat as if a trustee-to-trustee transaction
 - No tax on the distribution
 - Amend tax returns for repayment to reduce income

REPAYMENT OF PURCHASE/CONSTRUCTION DISTRIB. P 221

- If a client took a distribution from a plan to purchase/construct a home that was impacted by a disaster, dig into the rules on page 221.
- There may be a way to repay the distribution

PLAN LOANS

P. 221

Generally, maximum plan loan is lesser of:

1. Greater of \$10,000 or 50% of owner's vested balance, or
2. \$50,000 (increased to \$100,000 for qualified disaster)

For disaster related incidents

➤ Employers **MAY**:

- Allow an addl year to repay loan from eligible plan
- Allow addl year to repay an outstanding loan

Exception to 10% addl. Tax

Factors to determine emergency:

- Medical care
- Casualty loss of property
- Imminent foreclosure or eviction from personal residence
- Burial or funeral expense
- Auto repairs
- And other necessary emergency personal expense

ISSUE 6 – ABLE ACCOUNTS

P. 223

For the benefit of disabled person disabled before age 26

Plan maintained by a State

- <https://vermontable.com/>

REQUIREMENTS:

1. For qualified disability exp. of eligible designated beneficiary
2. Only one designated beneficiary per plan
3. Can only contribute Cash

ABLE REQUIREMENTS (CONT.)

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4. Annual contributions cannot exceed gift tax exclusion - \$19,000 for 2025

- Beginning 2018 & before 1/1/2026
 - Can contribute addl amt equal to lesser of:
 - Designated beneficiary earned income
 - One-person household poverty level
 - \$15,060 for 2024

5. If account exceeds \$100,000, can impact Supplemental Security Income (SSI)

ABLE REQUIREMENTS (CONT.)

P.223

6. Beneficiary can only direct investment twice per year
7. Account cannot be used as security for a loan
8. Plan has safeguards to ensure limits are obeyed

QUALIFIED DISABILITY EXPENSE

P.226

Made for eligible individual's disability, including:

- Education
- Employment training & support
- Housing
- Transportation
- Assistive technology and equipment
- *See complete list on page 226*

TREATMENT OF ABLE ACCT FOR FED. PROGRAMS P. 226

SUPPLEMENTAL SECURITY INCOME

- \$2,000 resource limit
- ABLE not counted as a resource
- ABLE distributions are disregarded
 - Up to a \$100,000 balance
 - Except for housing expense distributions

MEDICAID

ABLE acct balance generally not counted as resource

SAVERS CREDIT

P. 227

- ABLE contributions qualify for “Saver’s Credit”
- Very Low Income Limits (see page 228)

ISSUE 7 - ROLLOVERS TO 529 PLAN P. 229

- Education Savings Accounts, AKA Educational IRAs, Coverdell ESA can be rolled to 529 Plans (VT's 529 accepts Rollovers from Education)
- Tax & Penalty free rollover
- Certain Section 529 plans to Roth IRA (Vermont Does)
- Maximum rollover = \$35,000 (Lifetime limit)

ELIGIBILITY

- 529 plan maintained a minimum of 15 yrs
 - Prior to distribution
- Only Trustee to Trustee rollovers allowed
- Annual contribution limit:
 - 2025 limit = \$7,000 or \$8,000 if over 50
- Reduced AGI Roth limit does NOT apply
 - (Single AGI limit = \$150,000, Joint \$236,000)

EDUCATION SAVINGS ACCT TO ROTH ELIGIBILITY & LIMITATIONS

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➤ LIMITATIONS

- *(Funds rolled over must have been contributed at least 5 years before the rollover)*
- Rollovers from VT 529 subject to recapture of the VT Tax Credit

ISSUE 8 – QUALIFIED CHARITABLE DISTRIBUTIONS P. 231

- Non-taxable IRA distribution to a charitable organization
- Does not apply to SEP or SIMPLE-IRA plans if they are still active (receiving contributions)
- Taxpayer must be 70 ½ or older when distribution made
- Substantiation of contribution required

ISSUE 8 – WHY QUALIFIED CHARITABLE CONTRIBUTIONS? P. 231

Reduce AGI which can Impact...

- Taxation of Social Security
- Health Insurance Cost (One Spouse with RMDs and younger spouse on Health Exchange)
- IRMAA – Medicare Premiums
- SALT
- Child Tax Credit (Grandparent raising Grandchild)
- Tip and Overtime Exclusion
- Auto Loan Interest

QUALIFIED CHARITABLE DISTRIBUTIONS (QCDs) – CONT.

Additional benefits of QCDs

- For 2026, New Law allows a \$1,000 S and \$2,000 MFJ deduction for non-itemizers, but this is after AGI and QCDs have higher limit
- For 2026, New Law places floor on Charitable Donations on Schedule A
- Vermont Limits 5% Credit on Charitable Donations to the 1st \$20,000.
- Vermont “caps” the benefit at 5% where tax rates are higher at \$47,901 S and \$79,951 MFJ

QUALIFIED CHARITABLE CONTRIBUTIONS P. 231

- Maximum contribution:
 - 2025 = \$108,000
 - \$216,000 for joint return – \$108,000 for each spouse
 - Excess included in income
 - If non-deductible contributions – QCD \$\$ first from taxable portion

QCD – OFFSET BY IRA CONTRIBUTIONS

P. 231

- Tax year beginning after 12/31/2019
- Any Deductible IRA Contributions after 70 ½ may compromise QCDs
- QCD's offset by:
 - Age 70 ½ deductible contributions to a traditional IRA

OFFSET FOR QCDS BY IRA CONTRIBUTION (EX 6.14)

Year	Age	IRA Contribution	Distributions from IRA to Charity	Allowable as QCD	Sch A Deduction
2023	71	5,000			
2024	72	5,000	6,000	-	6,000
2025	73		6,500	2,500	4,000

QCD ONE-TIME ELECTION

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- \$54,000 for 2025
- Contribution from
 - Charitable Remainder Annuity Trust
 - Charitable Remainder Unitrust
 - Charitable Gift Annuity

OTHER CHARITABLE GIVING STRATEGIES

- Gift of Appreciated Stock
 - Full FMV for Donation
 - Take advantage of current high values
- Donor Advised Fund
 - Front end load multi years' donations in one
 - Use appreciated stock to fund gifts to multiple organizations

LEGACY PLANNING WITH IRA

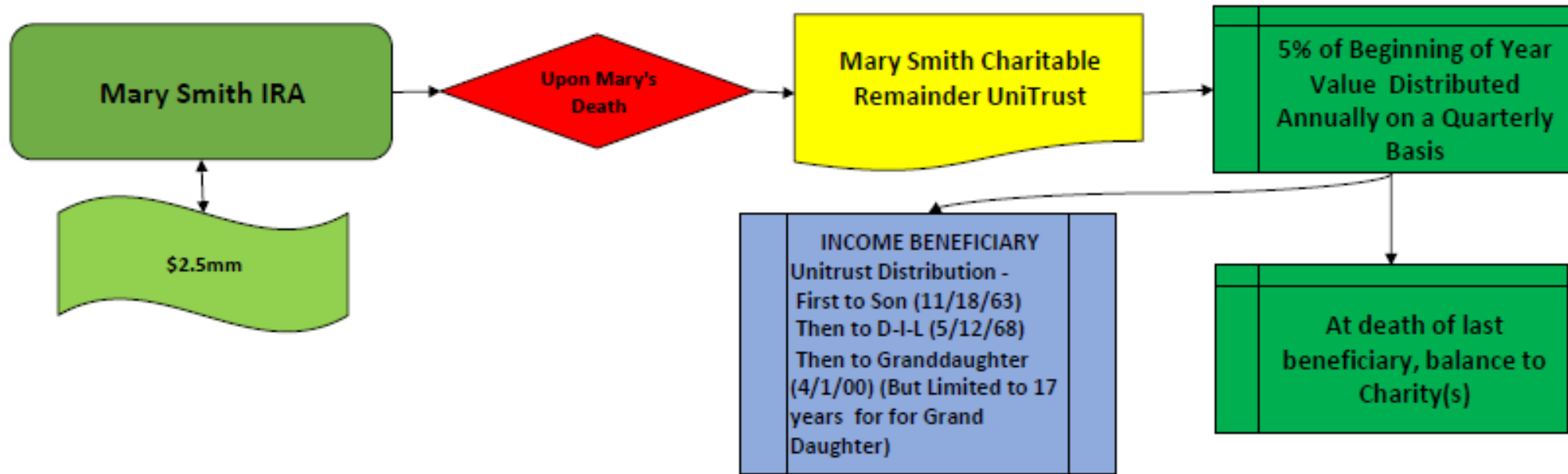
To Family

- New 10 year Rule reduces options for deferral
- Income Tax Impact
- Property Tax Impact
- Health Insurance Impact
- Education Cost Impact

Direct to Charity

To a Donor Advised Fund with heirs as Advisors

FUNDING A CRUT FROM AND IRA AT DEATH



TRUMP ACCOUNTS

The federal government will contribute \$1,000 to an investment account for every American baby born between Jan. 1, 2025, and Dec. 31, 2028.

An additional \$5,000 in after-tax contributions can be made annually to the accounts by parents, employers or other private entities.

Contributions can be made in calendar years before the beneficiary turns 18 and distributions can be made starting in the calendar year the beneficiary turns 18; full access to funds at age 30

Tax benefits - Earnings will grow tax-deferred and qualified withdrawals will be taxed at the long-term capital gains rates

Effective after 12/31/2025

TRUMP ACCOUNT VS. 529 PLAN

Attribute	Trump Account	529 Plan
Government Seed Money	\$1,000	None
Contribution Limits	\$5,000 Annually	Higher (State Specific)
Investment Growth	Tax Deferred	Tax Deferred
Withdrawals	Subject to Long Term Cap Gains	Tax Free if used for Qualified Ed
Uses	Broad	Qualified Ed
State Tax	NA	10% Credit on 1st \$2,500/5,000