ClientLine®

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ROLL OVER EXCESS 529 FUNDS TO A ROTH IRA

Starting in 2024, 529 educational savings plans will become even more attractive with enhanced tax benefits. If your student receives scholarships or joins the military, there is a new option for handling excess 529 plan funds.

SECURE 2.0

The SECURE Act 2.0, which became law late in 2022, enables 529 beneficiaries to place unused 529 funds into their Roth IRA — without penalty. Understand that the rollover can only be made to the 529 beneficiary's Roth IRA — not a parent's Roth IRA.

This new rule can have an incredible impact on the student's ability to successfully fund a comfortable retirement, thanks to the power of compound interest.

OTHER OPTIONS

You still have the option of changing a 529 plan beneficiary to another qualifying family member. But the funds would have to be used for educational purposes. Alternatively, you could withdraw excess funds and pay a 10% penalty.

OBEY THE RULES

As with most tax laws, numerous rules govern a 529 plan to Roth IRA rollover. Keep these in mind:

- A max of $35,000 can be rolled over from a 529 plan to a beneficiary's Roth IRA.
- Annual Roth IRA contribution limits apply to rollovers. (For example, if this law was already in effect, the 2023 ROTH IRA contribution limit is $6,500, which means it would take six years to convert $35,000 from a 529 plan to a Roth IRA).
- Conversions can only be made to a beneficiary's Roth IRA; a parent saving with a 529 plan in a child's name cannot convert unused funds back into their own retirement account.
- Rollovers are not allowed until a 529 account has been open for at least 15 years.
- Funds you convert from 529 plans to Roth IRAs must have been in the account for at least five years.

Consult your tax professional to learn more.

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EMPLOYEE PAYROLL DEDUCTIONS

Deductions from your staff's pay are made at the employees' discretion.

Voluntary deductions include things like 401(k) contributions, health and disability insurance premiums. Secure written authorization from your employees for any voluntary deductions.

Have team members review their voluntary withholdings each year and make changes on a new authorization form.

Involuntary deductions include things like income tax, court-ordered garnishments, and FICA tax. While taxes are an automatic involuntary deduction, you should require a written court order supporting the amount and duration of the deduction for garnishments.

Keep all payroll forms in employees' payroll files — separate from personnel files — for three years.

CLIENT PROFILE

Gary started receiving short-term disability insurance proceeds for an injury he sustained while playing sports. Will he owe income tax on the benefit amount he receives?

Disability insurance payments may or may not be taxable. It largely depends on who paid for the plan. Any disability payments Gary receives from a plan paid for entirely by his employer are considered taxable income. But if Gary paid for 100% of the disability insurance premiums, generally, the payments he receives while disabled are not taxable to Gary.

If Gary and his employer shared the cost of the premiums, only the percentage of income he receives that's due to his employer's contributions is reported as income. So, if Gary paid 50% and his employer paid the other 50%, then 50% of the disability payments he receives are taxable.

Also, if he itemizes, Gary could deduct out-of-pocket medical expenses greater than any reimbursement he received.

Client Profile is based on a hypothetical situation. The solutions discussed may or may not be appropriate for you.

WHAT IS BONUS DEPRECIATION?

Bonus depreciation is a valuable tax-saving tool for businesses. It allows your business to take an immediate first-year deduction on the purchase of eligible business property.

HOW IT WORKS

Bonus depreciation is a method of accelerated depreciation that allows a business to take an additional deduction of 80% of the cost of qualifying property in the first year it is put into service. You can take the deduction for new or new-to-you equipment.

Before 2023, you could deduct 100% of the cost. Now, 80% is deductible in the first year. The remaining 20% gets deducted over the asset's life.

This special deduction allowance is an additional deduction you can take after you take the Section 179 deduction and before you figure regular depreciation for the year.

QUALIFICATIONS AND RESTRICTIONS

To qualify, the deduction must be first used in the year you are claiming the first depreciation deduction.

Only certain types of property may be eligible for bonus depreciation. The item must be:

- Owned by the business
- Used in your business or income-producing activity
- Usable for a determinable lifespan (generally less than 20 years)
- Expected to last more than a year

Also, if you choose bonus depreciation for one of your company vehicles, you'll need to claim it for all your vehicles. Unlike Section 179 depreciation, you cannot be selective.

WHAT IT MEANS FOR BUSINESS

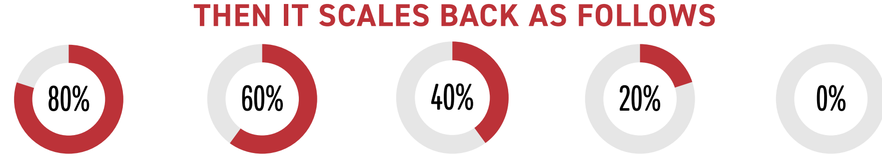
Claiming bonus depreciation for your business can help lower your taxable income. You may even create a taxable loss by claiming bonus depreciation (unlike Section 179 depreciation).

Beware that bonus depreciation will phase out to zero effective January 1, 2027. (See the graphic below).

Bonus depreciation will decrease each year until 2027 unless Congress acts to change the law.

BONUS DEPRECIATION SCHEDULE

100% WAS AVAILABLE UNTIL DECEMBER 31, 2022, THEN IT SCALES BACK AS FOLLOWS



1/1 - 12/31	1/1 - 12/31	1/1 - 12/31	1/1 - 12/31	1/1 - 12/31
2023	**2024**	**2025**	**2026**	**2027**

ORDINARY AND NECESSARY BUSINESS EXPENSES

All businesses can deduct ordinary and necessary business expenses from their tax return. But be careful — it's not black and white.

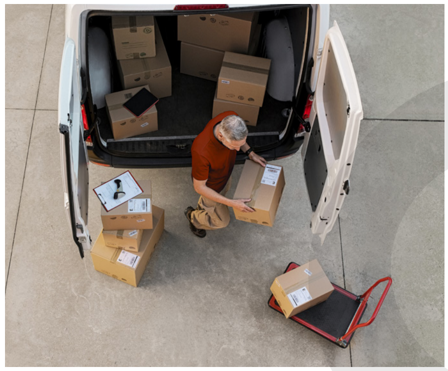
ONE SIZE DOESN'T FIT ALL

Deductible business expenses aren't uniform. An ordinary business expense for a dog walking business certainly wouldn't be ordinary for a bakery.

Think of it like this. What expenses are unequivocally needed to run your business? A dog walker needs dog treats and leashes. But a bakery doesn't.

BEWARE OF THE GRAY AREA

Several types of expenses tend to occupy the gray areas. These include business meals, automobile expenses, travel, and capital expenditures. Without clear-cut rules, don't blur the lines between what's deductible and



what's not. A lunch with a customer is a business expense. But lunch with your spouse or child likely isn't. Travel to an industry conference is an ordinary expense. However, a trip to the Maldives, where you spend a few hours planning your company's future, doesn't count.

Q **What is the U.S. debt ceiling?**

A The debt ceiling is the maximum amount of money the United States can borrow cumulatively by issuing bonds.

If the national debt levels bump up against the ceiling, the Treasury Department must resort to other extraordinary measures to pay government obligations and expenditures until the ceiling is raised again. This can result in government shutdowns, as we saw in 2018 and 2019.

The debt ceiling has been raised or suspended numerous times over the years to avoid the worst-case scenario: a default by the U.S. government on its debt.

CLAIMING LIFE INSURANCE BENEFITS

Life insurance is the ultimate safety net for your family. The first step that your personal representative (executor) should take is to file a claim for the benefits.

CHECK ALL POLICIES

With any luck, you're already aware of the deceased's life insurance

policy and where it's located. Ideally, it will be stored safely in a metal filing cabinet or fireproof lockbox.

And don't forget to check for other policies. Travel accident insurance, if applicable, Social Security survivor benefits, or military benefits may be in place and available.

GET COPIES

You'll need a certified copy of the person's death certificate to file the insurance claim — and just about everything else you'll need to do. Usually, there is a small fee for this. Also, request a claim form from the insurance agent or company and complete it.

CHOICES

There may be several options to receive benefits. Most likely, choices will include regular installments or a lump sum, which may be a good option if you need to pay immediate expenses. Generally, life insurance proceeds aren't taxable.

THE SHRINKING DOLLAR

Inflation effectively makes every dollar worth less, which impacts your spending power. That is why it is important to position your investments so they outpace inflation. To see what inflation does to the value of your money, compare the increasing cost of a $1,000 purchase over the decades.

Year	Inflation Value
1993	$1,000.00
2003	$1,273.36
2013	$1,612.08
2023	$2,081.94