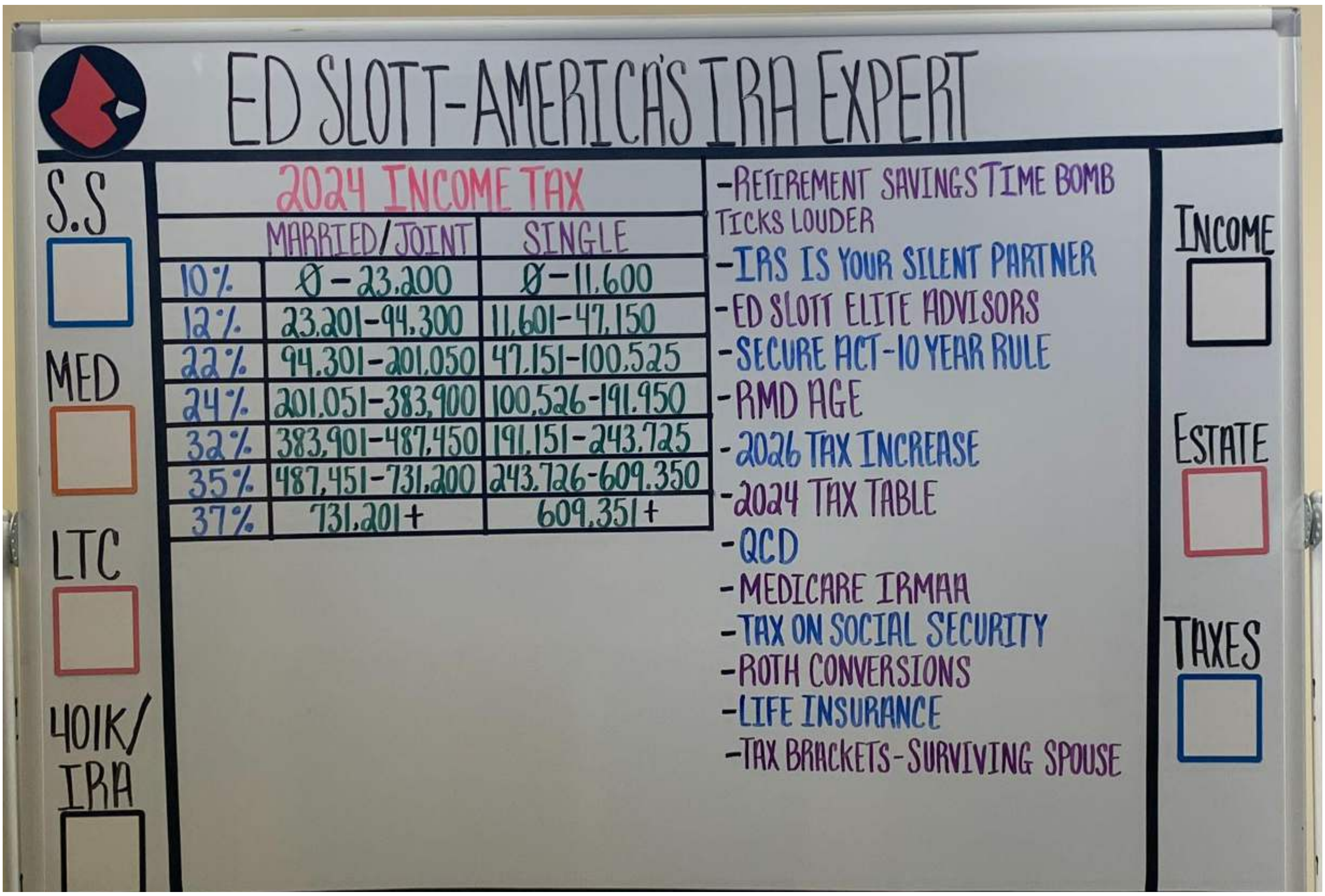
CARDINAL ADVISORS

Ed Slott-America's IRA Expert

In our video entitled "Ed Slott-America's IRA Expert" Hans and Tom interview special guest Ed Slott using his charts to discuss IRA's.



Aug, 2024

"THE BEST SOURCE OF IRA ADVICE."
—The Wall Street Journal

Includes updates for SECURE ACT 2.0

THE RETIREMENT SAVINGS TIME BOMB TICKS LOUDER

HOW TO AVOID UNNECESSARY TAX LANDMINES, DEFUSE THE LATEST THREATS TO YOUR RETIREMENT SAVINGS, AND IGNITE YOUR FINANCIAL FREEDOM

AMERICA'S IRA EXPERT
ED SLOTT

2024 Tax Planning

Taxable Income Brackets for 2024 *Ordinary* Income Tax Rates

Marginal Tax Rate	Married Filing Joint	Single
10%	$0 – $23,200	$0 – $11,600
12%	$23,201 – $94,300	$11,601 – $47,150
22%	$94,301 - $201,050	$47,151 – $100,525
24%	$201,051 - $383,900	$100,526 – $191,950
32%	$383,901 - $487,450	$191,951 - $243,725
35%	$487,451 - $731,200	$243,726 – $609,350
37%*	Over $731,200	Over $609,350

* The top rate is effectively 40.8% for those subject to the 3.8% Medicare surtax on net investment income (those with MAGI over the thresholds of $250,000 joint filers/$200,000 single filers).

2024 Trust Tax Rates

Ordinary Income Tax		Capital Gain Rates	
10%	$0 - $3,100	0%	$0 - $3,150
24%	$3,101 - $11,150	15%	$3,151 - $15,450
35%	$11,151 - $15,200	20%	Over $15,450
37%	Over $15,200		

Trust Tax Rates – Distributions from inherited IRAs that exceed **$15,200** and are made to and retained in discretionary trusts will be subject to the top 37% rate. After the SECURE Act, inherited IRA funds will have to be paid out to most of these trusts under the 10-year rule, accelerating trust taxes. Roth conversions during the IRA owner's life become more valuable if the IRA beneficiary is a trust.

Qualified Business Income (QBI) Deduction

20% Deduction Phase-Out Ranges

$383,900 - $483,900 - Married Joint

$191,950 - $241,950 - Single

Taxable Income Brackets for 2024 *Long Term Capital Gains and Qualified Dividends Tax*

Long Term Capital Gains Rate	Married Filing Joint	Single
0%	$0 – $94,050	$0 – $47,025
15%*	$94,051 – $583,750	$47,026 – $518,900
20% **	Over $583,750	Over $518,900

*The 15% rate is effectively 18.8% for those subject to the 3.8% Medicare surtax on net investment income.

**The top rate is effectively 23.8% for those subject to the 3.8% Medicare surtax on net investment income.

2024 Transfer Taxes

Transfer Tax	Exemption*	Maximum Rate
Estate, Gift, GST Tax	$13,610,000	40%

*The estate and gift exemptions are portable. The unused amount can be transferred to a surviving spouse. The GST exemption is NOT portable.

Annual Gift Tax Exclusion **$18,000**

Standard Deductions

Married-Joint	$29,200
Single	$14,600
Head of Household	$21,900

Extra Standard Deduction for Age 65 or Blind
$1,550 (married-joint)
$1,950 (single)

Qualified Charitable Distributions

Available only to IRA owners and IRA beneficiaries who are 70½ or older. The annual QCD limit for 2024 is $105,000 per IRA owner, ***not*** per IRA account. For 2024, the limit for a QCD to a split interest entity is $53,000. QCDs are more valuable due to the larger number of taxpayers that are using the increased standard deduction.

Roth Conversion Planning Ideas

Roth conversions are permanent and work best for those who believe they will be subject to higher marginal tax rates in the future.

Roth conversions are not all or nothing. Consider a series of smaller annual conversions over time to spread out the income tax.

Timing Roth conversions for maximum tax efficiency:
Convert before RMDs begin. RMDs cannot be converted, so no conversion can be done until the RMD is withdrawn.

Avoid the impact of Roth conversions on Medicare IRMAA charges for Parts B and D based on income. Since Medicare has a 2-year lookback provision, consider conversions before age 63.

If a spouse died during the year, consider a Roth conversion for the surviving spouse since this may be the last year to take advantage of married-joint tax return rates. Include the conversion income on the final joint tax return.

SECURE Act

Retirement Plan Payouts to Beneficiaries Under the SECURE Act

(for deaths *after* 2019*)

***Extended Effective Dates**
The effective date for the elimination of the stretch and application of the 10-year rule is generally for deaths after December 31, 2019. But that effective date was extended for two years (for deaths after December 31, 2021) for governmental plans, including certain 403(b) and 457(b) plans, and the Thrift Savings Plan. It was also extended for as long as two years for collectively bargained plans, depending on the expiration date of the union contract.

Retirement Accounts Affected
The elimination of the stretch IRA and inclusion of the 10-year rule provisions apply to defined contributions plans, including 401(k), 403(b) and 457(b) plans, and traditional and Roth IRAs. They do not apply to defined benefit plans.

Under the SECURE Act, there are 3 kinds of retirement plan beneficiaries for determining post-death payouts after 2019:

1. Non-Designated Beneficiary (NDB)

2. Non-Eligible Designated Beneficiary (NEDB)

3. Eligible Designated Beneficiary (EDB)

1. Non-Designated Beneficiary (NDB)

These are not people. Examples: Estate, charity or non-qualifying trust (non-look-through trust)

Post-death Payout Rules for NDBs
Based on whether the IRA owner or plan participant dies before or after the owner's required beginning date (RBD). The RBD is generally April 1 after the year of the 73rd birthday.

If owner dies before the RBD, the account must be withdrawn by the end of the 5th year after the year of death – the 5-year rule. There are no annual RMDs during the 5-year window.

If owner dies on or after the RBD, RMDs must be taken over the deceased's remaining single life expectancy – "*ghost life rule.*" (Note: This can produce a post-death payout exceeding 10 years.)

2. Non-Eligible Designated Beneficiary (NEDB)

10-year rule

All designated beneficiaries who do not qualify as EDBs (see #3 below).
Examples: grandchildren, older children, some look-through trusts

Post-death Payout Rules for NEDBs - *Depends on whether death occurs before or after the required beginning date (RBD)*

- If owner dies ***before*** the RBD, there are no annual RMDs during the 10-year window.
- If owner dies ***on or after*** the RBD, annual (stretch IRA) RMDs must be taken for years 1-9.

Entire account must be emptied by the end of the 10th year after the year of death – the 10-year rule.

3. Eligible Designated Beneficiary (EDB)

Stretch applies

The SECURE Act exempts these beneficiaries from the 10-year rule. However, if the account owner dies before the RBD, an EDB can elect the 10-year rule.

EDBs must be designated beneficiaries.

5 Classes of Eligible Designated Beneficiaries
1. Surviving spouses
2. Minor children of the account owner, until age 21 - but *not* grandchildren
3. Disabled individuals – under the strict IRS rules
4. Chronically ill individuals
5. Individuals not more than 10 years younger than the IRA owner. (Those older than the IRA owner also qualify.)

Plus - Any designated beneficiary (including qualifying trusts) who inherited ***before*** 2020. These beneficiaries are grandfathered under the pre-2020 stretch IRA rules. In addition, trusts for the sole benefit of these EDBs should qualify as an EDB.

EDB status is determined at date of owner's (or plan participant's) death and cannot be changed.

Post-death Payout Rules for EDBs
Once an EDB no longer qualifies as an EDB, or dies, the 10-year rule is applied for them, or for their beneficiaries (i.e., successor beneficiaries.)

2024 Tax Planning for Investment Income
3.8% Surtax on Net Investment Income

What Will Be Considered Investment Income?

Investment Income

Interest, Dividends, Capital Gains (long and short - including the gain on the sale of investment real estate and second homes)
Annuities (but not annuities in IRAs or company plans)
Royalty Income
Passive Rental Income and Other Passive Activity Income

NOT Investment Income

Wages and Self-Employment Income
Active Trade or Business Income (including interest, dividends, capital gains)
Distributions from IRAs, Roth IRAs, and Company Plans – Including Net Unrealized Appreciation
Excluded Gain from the Sale of a Principal Residence
Municipal Bond Interest
Proceeds of Life Insurance Policies
Social Security and Veterans' Benefits
Gains on the Sale of an Active Interest in a Partnership or S Corporation

Taxable income from items that are ***NOT*** investment income can push taxpayers over the income threshold and cause investment income to be subject to the 3.8% surtax.

MAGI Thresholds for 3.8% Surtax

Married Filing Joint	$ 250,000
Individuals	$ 200,000
Married Filing Separate	$ 125,000
Trusts and Estates	$ 15,200*

* Trusts are hit hard – The 3.8% surtax kicks in at much lower income levels for trusts. The threshold for trusts and estates is the amount at which the top trust tax bracket takes effect. This amount is **$15,200** in **2024**. All other threshold amounts are NOT indexed for inflation.

MAGI (Modified Adjusted Gross Income)

The 3.8% surtax applies to net investment income when MAGI exceeds these threshold amounts.

For this purpose, MAGI is a taxpayer's regular AGI, plus any foreign income excluded from AGI.

The 3.8% Medicare tax is imposed on the lesser of (1) net investment income or (2) the amount of MAGI over the threshold amount.

Taxpayers with income below these MAGI levels will not be subject to the tax.

– Tax Planning Points –

1 - The 3.8% tax is ***in addition*** to the tax rates for high income individuals. Those at the top brackets can have long-term capital gains and dividends taxed at 23.8% and other investment income taxed at 40.8%.

2 - There is an additional 0.9% Medicare tax on wages and self-employment income over the threshold amounts.

3 - IRA and plan distributions (including sales of employer securities with net unrealized appreciation) are exempt from the 3.8% surtax on net investment income, but taxable distributions from these accounts can push income over the threshold amounts causing other investment income to be subject to the tax.

4 - Roth conversions will increase current income, but future tax-free Roth distributions will be more valuable as a means to eliminate taxable income and required minimum distributions from traditional IRAs.

5 - The 3.8% surtax is subject to the estimated tax provisions.

6 - Taxpayers who have named a discretionary (accumulation) trust as their IRA beneficiary should consider Roth conversions to avoid potential harsh trust tax rates at low trust income levels. After the SECURE Act, the 10-year payout rule will apply to most trusts named as the IRA beneficiary. The inherited IRA funds will have to be paid out to the trust within the 10 years. Any funds retained in the trust will be subject to the high trust tax rates, including the 3.8% tax on trust net investment income that applies above the MAGI threshold (only **$15,200** for **2024**).

7 - Salary deferrals (401(k), 403(b), etc.) can reduce MAGI for the 3.8% surtax but cannot reduce earned income for the 0.9% additional Medicare tax.

2024 Medicare Income Planning

Part B and D Charges

The Medicare health care system is largely government funded, but individuals pay premiums to participate in two portions of it.

Medicare charges premiums to participants in Medicare Part B, covering doctor visits, and Part D, the prescription drug benefit. In 2024 the basic premium for Part B is $174.70 per month. The premium for Part D varies by plan.

The standard premiums for these are increased by surcharges imposed on upper-income individuals, those with **Modified Adjusted Gross Income (MAGI)** exceeding $103,000 on an individual return or $206,000 on a joint return.

In 2024 the largest premium surcharges apply to persons with MAGI of $500,000 or over on a single return or $750,000 or over filing jointly.

The extra amount that higher-income individuals must pay is called an **Income Related Monthly Adjustment Amount (IRMAA)**. The first five IRMAA tiers for Medicare premium surcharges are adjusted for inflation each year. This could result in reduced Medicare premiums for some. The IRMAA tier for individuals earning $500,000 or more (or married couples with MAGI of $750,000 or more) will not be adjusted until 2028.

Combination Chart - Parts B and D

2024 IRMAA *MONTHLY* SURCHARGES FOR MEDICARE PART B AND PART D (Based on 2022 MAGI)

Filing Single	Married filing joint	IRMAA Surcharge Part B	Total Premium Part B	IRMAA Surcharge Part D	Total of surcharges Part B & D
$103,000 or less	$206,000 or less	$0.00	$174.70	$0.00	$0.00
Over $103,000 to $129,000	Over $206,000 to $258,000	$69.90	$244.60	$12.90	$82.80
Over $129,000 to $161,000	Over $258,000 to $322,000	$174.70	$349.40	$33.30	$208.00
Over $161,000 to $193,000	Over $322,000 to $386,000	$279.50	$454.20	$53.80	$333.30
Over $193,000 to less than $500,000	Over $386,000 to less than $750,000	$384.30	$559.00	$74.20	$458.50
$500,000 and above	$750,000 and above	$419.30	$594.00	$81.00	$500.30

IRMAA surcharges apply on a "cliff" basis. Reaching the first dollar of an IRMAA income level causes the full corresponding surcharge to apply to all premiums paid for the year.

Example:
If Bob has MAGI of as much as $103,000 on his single return, he'll owe no surcharge. But if his income reaches $103,001, then a monthly surcharge of $69.90 for Part B plus $12.90 for Part D, or $82.80 total, will apply for all 12 months of the year. Bob's $1 of additional income increases premium cost by $993.60 for the year.

Medicare Planning Points

Medicare premium surcharges are imposed on individuals with MAGI over $103,000 on a single tax return or $206,000 on a joint return.

2-Year Lookback
For IRMAA purposes, MAGI is defined as Adjusted Gross Income (AGI) plus tax-exempt interest and untaxed foreign income. Medicare uses the MAGI reported on the federal tax return from two years ago. For example, to determine whether someone will pay higher premiums for 2024, Medicare uses **2022** MAGI.

Similarly, the tax return filed for **2024** will be used to calculate IRMAA surcharges for the year **2026**.

RMD Effect
Address required minimum distribution (RMD) requirements well in advance of the required beginning date, explaining how RMDs are included in income for Medicare Part B and Part D costs two years down the road. RMDs are not required from Roth IRAs during the Roth IRA owner's lifetime.

Don't forget that this includes older beneficiaries who are also subject to RMDs on IRAs they have inherited.

Income Reduction Strategies

The key to reducing Medicare surcharges is to reduce MAGI. Items like itemized deductions won't do that. They only reduce ***taxable*** income.

Check the tax return during the year to see if reported MAGI is near one of the threshold amounts. If income is close enough, plan to realize income and deductions to keep MAGI below the nearest threshold.

Roth Conversions
A Roth IRA conversion can be useful in minimizing future IRMAA surcharges as distributions from the Roth IRA can be tax free, reducing MAGI.

To avoid a current income spike from a Roth conversion, consider making a series of partial conversions over a number of years to avoid pushing income into higher tax brackets. This is a strategy that requires long-term advance planning.

For those in early retirement, consider the benefit of converting before the conversion income would impact Medicare costs.

Converting later may still be an effective strategy. A Roth conversion would negatively affect MAGI for Medicare purposes but only for one year. It may make sense to take the hit in one year in exchange for no RMD concerns in future years.

HSAs (Health Savings Accounts)
Younger people may want to consider funding a Health Savings Account (HSA) rather than an IRA if they have a choice. They can make deductible HSA contributions in their working years, use other funds to pay medical expenses, and then they can access their HSA tax- and penalty-free to pay for qualified medical expenses in retirement. These distributions would not be included in MAGI for Medicare purposes the way RMDs and other traditional IRA distributions are.

QCDs (Qualified Charitable Distributions)
As a result of the tax law's increased standard deduction amounts, many are no longer deducting charitable contributions. QCDs can help restore charitable tax benefits by having those QCDs excluded from income. The exclusion from income will help to avoid Medicare premium increases.

With a QCD, an IRA owner (or beneficiary) who is age 70½ or over can transfer up to $105,000 (indexed for inflation) annually from their IRA to a charity tax-free.

A QCD can count towards the RMD and is not included in MAGI for determining Medicare costs. Keeping the RMD amount out of MAGI can result in big savings. This is not the case if an IRA owner takes their RMD and then donates to charity and claims a charitable deduction (if they can at all). With that approach, the RMD would still be included in MAGI.

For those taking RMDs, consider how a QCD could help to save on Medicare costs.

Other strategies that can be used to manage MAGI to minimize Medicare surcharges include:

- Timing investment gains and other income by accelerating them onto a tax return for a year before IRMAA calculations occur or deferring them to a year when income is expected to be lower and there may be offsetting losses.
- Obtaining spending funds from tax-free sources. For instance, one may borrow against a life insurance policy rather than take a taxable distribution from a retirement plan or use tax-free proceeds from the sale of a principal residence (as much as $250,000, or $500,000 on a joint return).
- Using a home equity conversion mortgage (HECM - reverse mortgage line of credit) to provide a source of tax-free funds with no corresponding mortgage payment expense, to keep income below the Medicare surcharge threshold amounts.

When Income Falls

If there has been a major life-changing event that results in a large reduction in MAGI, an individual may request to use their MAGI for a more recent year. If an individual disagrees with the decision about their Medicare costs, they have the right to appeal.

Do this by submitting Form SSA-44, "*Medicare Income-Related Monthly Adjustment Amount - Life-Changing Event,*" to the Social Security Administration.

The end of employment is a qualifying "life-changing event" that should be considered for every client who retires at age 65 or later. If an IRMAA surcharge will result from high salary income reported on a return filed two years earlier, but that salary no longer exists, relief from the surcharge may be readily available.