AWM Financial Planning

Benefits of a Roth

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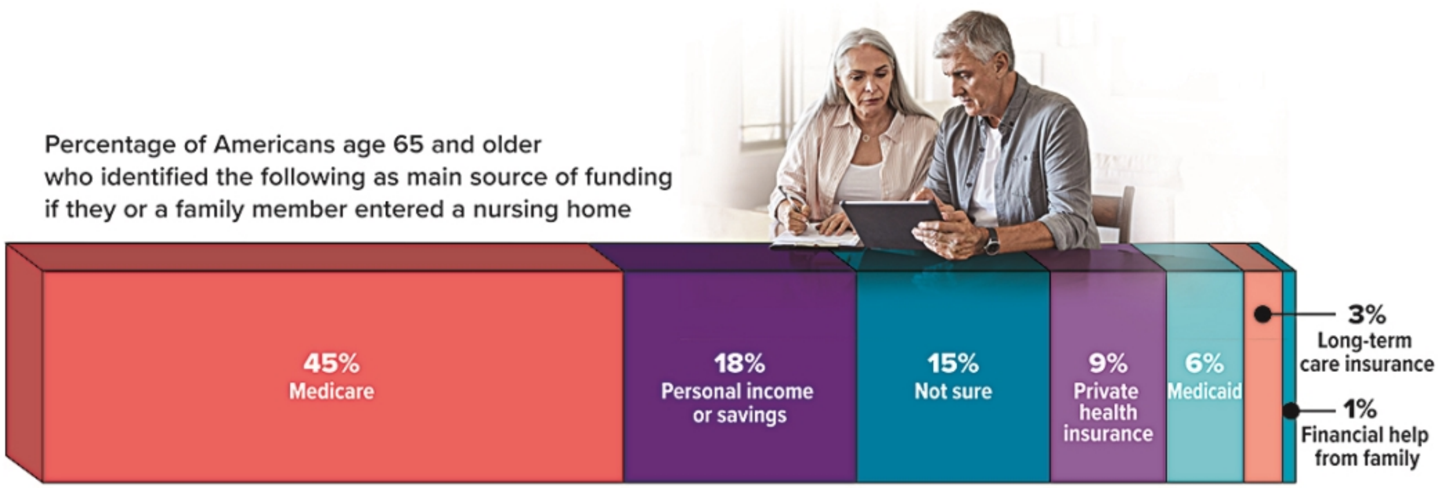
- Earnings grow tax-deferred and qualified withdrawals are tax-free.
- No employer-plan restrictions – it does not matter if you are covered by an employer's retirement plan, such as a 401(k) or 403(b).
- No Age Limit – contribute for yourself, and spouse (spousal IRA for non-working spouse), if you have earned income and meet income requirements. Income phase outs begin at MAGI of $230,000 for married filing joint returns and $146,000 for single filers.
- $7,000 contribution limit under age 50, $8,000 over age 50.
- No Required Minimum Distributions (RMDs) – Unlike Traditional IRAs and other tax-deferred retirement accounts, distributions are not required at RMD age.
- Diversification of Retirement Income – since qualified distributions are tax-free, this income is a great "hedge" to higher future tax rates.
- Beneficiary Taxation – distributions paid to beneficiaries are non-taxable, providing the opportunity to transfer assets to the next generation tax-free.

How Would You Pay for Long-Term Care?

According to the U.S. Department of Health and Human Services, seven out of 10 people age 65 and over will need some type of long-term care. Medicare only pays for skilled services or rehabilitative care in a nursing home for a maximum of 100 days, and unfortunately, it does not pay for non-skilled assistance with activities of daily living, including walking, bathing, dressing, and many other long-term care services.

Despite this limited coverage, almost half of Americans age 65 and older said that Medicare would be the main source of funding if they or a loved one entered a nursing home due to a long-term illness or disability. And only 6% identified Medicaid, even though it is the primary source of such funding.



Source: Kaiser Family Foundation, 2023 (may not total 100% due to rounding)

May 2024

Saving for College: 529 Plan vs. Roth IRA

529 plans were created in 1996 to give families a tax-advantaged way to save for college. Roth IRAs were created a year later to give people another tax-advantaged way to save for retirement. Along the way, some parents began using Roth IRAs as a college savings tool. And now, starting in 2024, extra funds in a 529 plan can be rolled over to a Roth IRA for the same beneficiary. Here's how the two options compare in a few key areas.

Contribution rules

529 plan: Anyone can open a 529 account. In 2024, individuals can contribute up to $18,000 ($36,000 for married couples) without triggering gift tax implications. And under a special accelerated gifting rule unique to 529 plans, individuals can make a lump sum contribution in 2024 up to $90,000 ($180,000 for married couples) with no gift tax implications if they elect to spread the gift over five years. Lifetime contribution limits for 529 plans are high — most plans have lifetime limits of $350,000 and up (limits vary by state).

Roth IRA: Not everyone can contribute to a Roth IRA. In 2024, single filers must have a modified adjusted gross income (MAGI) of $146,000 or less and joint filers must have a MAGI of $230,000 or less. (A partial contribution is allowed for single filers with a MAGI between $146,000 and $161,000, and joint filers with a MAGI between $230,000 and $240,000.) In 2024, the annual contribution limit is $7,000 ($8,000 for people age 50 and older).

529 Plan Snapshot (2023)

Source: ISS Market Intelligence, 529 Market Highlights, Q4 2023

Tax benefits

529 plan: Earnings in a 529 account accumulate tax-deferred and are tax-free when withdrawn if funds are used to pay the beneficiary's qualified education expenses, a broad term that includes tuition, fees, housing, food, and books. States generally follow this tax treatment, and some states may offer a tax deduction for 529 contributions. If funds in a 529 account are used for a non-qualified expense, the earnings portion of the withdrawal is subject to income tax and a 10% federal penalty.

Roth IRA: Earnings in a Roth IRA also accumulate tax-deferred and are tax-free if a distribution is qualified. A distribution is qualified if a five-year holding period is met *and* the distribution is made: (1) after age 59½, (2) due to a qualifying disability, (3) to pay certain first-time home buyer expenses, or (4) to your beneficiary after your death. If your distribution isn't qualified, the earnings portion of the withdrawal is subject to income tax and, if you're younger than 59½, a 10% early withdrawal penalty (unless an exception applies). One exception to this penalty is when the withdrawal is used to pay college expenses.

So, your age is key. Once you've met both the age 59½ and five-year holding requirements, money withdrawn from your Roth IRA to pay college expenses is tax-free. But even though withdrawing funds before age 59½ for college expenses won't trigger an early withdrawal penalty, you *may* owe income tax on the earnings. (Nonqualified distributions draw out contributions first and earnings last, so you could withdraw up to the amount of your contributions and not owe income tax.)

Investment options and flexibility

529 plan: You're limited to the investment options offered by the 529 plan. Plans typically offer a range of static and age-based portfolios (where the underlying investments automatically become more conservative as the beneficiary gets closer to college) with varying levels of risk, fees, and management goals. If you're unhappy with the investment performance of the options you've chosen, you can change the investment options on your *current* contributions only twice per year, per federal law.

Roth IRA: With a Roth IRA, you generally can choose from a wide range of investments, and you can typically buy and sell investments whenever you like (usually incurring transaction costs and fees), so they offer a lot of flexibility.

There are generally fees and expenses associated with investing in a 529 plan, as well as the risk that investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 plan can vary from state to state and should be discussed with a legal and/or tax professional. States offering their own 529 plans may provide their residents and taxpayers with exclusive advantages and benefits, which may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 plan, consider the investment objectives, risks, charges, expenses, investment options, underlying investments, and the investment company, which are available in the official disclosure statement and applicable prospectuses. Contact your financial professional to obtain a copy.

Should You Buy or Lease Your Next Vehicle?

New vehicle prices have skyrocketed these past few years, with the cost averaging well over $48,000 toward the end of 2023.[1] These increased costs, coupled with rising interest rates, mean that buying a vehicle can take a significant bite out of your budget. If you are in the market for a new vehicle, you might be wondering if leasing it would save you money.

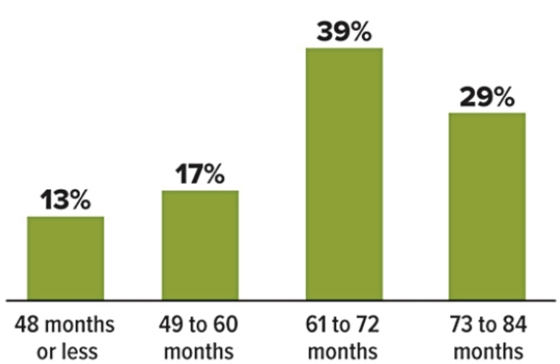
As a rule, if you plan on keeping a vehicle for a long period of time, it makes more sense to buy it. But if having the latest technology and safety features is important to you, leasing might be the best option, allowing you to drive a new vehicle every few years. To help you decide, you should also determine how each option fits into your lifestyle or budget. Here are some points to consider.

Ownership

When you buy a vehicle, you usually finance a portion of the purchase price and pay it back over time with interest. When the loan term ends and the vehicle is paid for, you own it. You can keep it as long as you like, and any retained value (equity) is also yours to keep.

When you lease a vehicle, you don't own it — the leasing company does — so you do not have any equity built up once the lease is over. At the end of the lease term, you can choose to either return the vehicle or buy it at its residual value, which is set forth in the lease. If you end up returning it early, the dealer may require you to pay a hefty fee. If you still need a vehicle at the end of the lease term, you'll need to start the leasing (or buying) process all over.

Share of new vehicle loans, by loan term



Source: Experian, 2023

Monthly payments

If you finance all or part of your new vehicle purchase, you will have a monthly payment that will vary based on the amount you finance, the interest rate, and the loan term. When comparing loans, it's important to look at the total amount of money you will end up paying over the life of the loan. While a longer loan term may give you a more affordable monthly payment, you will end up paying more money over the loan term.

In general, monthly lease payments are usually lower than monthly loan payments since you are mainly paying for the vehicle's depreciation during the lease term as opposed to the purchase price. This means that leasing may allow you to drive a more expensive vehicle than what you could otherwise afford.

Mileage

How much do you plan on driving? When you buy a vehicle, you can drive it as many miles as you want. However, a vehicle with higher mileage may be worth less if you plan to trade it in or sell it at some point down the road.

Vehicle leases come with up-front mileage limits, typically ranging from 12,000 to 15,000 miles per year. If you exceed these limits, you can end up incurring costly penalties in the form of excess mileage charges.

Maintenance

When you sell your vehicle, condition matters, so you may receive less if it hasn't been well maintained. As your vehicle ages, repair bills may be greater, something you typically won't encounter if you lease.

Generally, you will have to service a leased vehicle according to the manufacturer's recommendations. In addition, you'll need to return your vehicle with normal wear and tear (according to the leasing company's definition). Anything above normal wear and tear may result in excess charges.

Up-front costs

When you buy a vehicle, the up-front costs you incur may include the cash price or a down payment for the vehicle, taxes, title, and other fees.

The up-front costs associated with leasing a vehicle may include an acquisition fee, down payment, security deposit, first month's payment, taxes, title, and other fees.

Additional buying vs. leasing tips

Keep the following tips in mind when determining whether or not to buy or lease a vehicle:

- **Shop wisely.** Make sure you read the fine print and fully understand all terms or conditions.
- **Negotiate.** To get the best deal, be prepared to negotiate the price of the vehicle and the terms of any loan/lease offer.
- **Run the numbers.** Calculate both the short-term and long-term costs associated with each option.
- **Consider tax implications.** This is especially important if you use your vehicle for business and/or have an electric vehicle.

1) Kelley Blue Book, 2024

Can Home Improvements Lower Your Tax Bill? It Depends

Most home improvements are not tax deductible — with one possible exception. In certain situations, you may be able to deduct improvements deemed necessary for medical reasons (not just beneficial to general health). If you itemize instead of taking the standard deduction, you can deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income, so the tax savings could be significant if a costly home improvement pushes your total medical expenses above that threshold. Installing air conditioning to help treat asthma or modifying a home to make it wheelchair accessible are common examples of qualifying expenses.

Here are two more ways that improving your home could potentially reduce your tax burden.

Capital improvements

Projects that add to the value of your home, prolong its life, or adapt it to new uses are considered capital improvements. When you sell your home in the future, you can add the cost of capital improvements to your initial basis (what you paid for it originally), reducing your capital gain and the resulting tax bill.

Some examples of capital improvements include remodeling the kitchen, replacing all your home's windows, adding a bathroom, or installing a new roof. Repairs that keep your home in good condition (such as repainting, replacing a broken door or window, or fixing a leak) don't count as capital improvements. However, an entire repair job may be considered an improvement if it's done as part of an extensive remodel or restoration.

Energy-saving tax credits

The Inflation Reduction Act of 2022 reconfigured two nonrefundable tax credits for home improvements that save energy. Unlike a deduction, which reduces your taxable income, a tax credit lowers your tax bill dollar for dollar. Both credits are available only for the installation of new products that meet specific energy efficiency requirements.

The energy efficient home improvement credit is equal to 30% of qualified expenditures for an existing home (not new construction). A $3,200 maximum annual credit is available through 2032. A $2,000 limit (30% of all costs, including labor) applies to electric or natural gas heat pumps, heat pump water heaters, and biomass stoves and boilers. A separate $1,200 limit applies to home energy audits and building envelope components (such as exterior doors, windows, skylights, and insulation) and energy property (including central air conditioners).

The residential clean energy property credit is a 30% tax credit available for qualifying expenditures for clean energy property (and related labor costs) such as solar panels, solar water heaters, geothermal heat pumps, wind turbines, fuel cells, and battery storage.