Financial Strategies

News You Can Use!!

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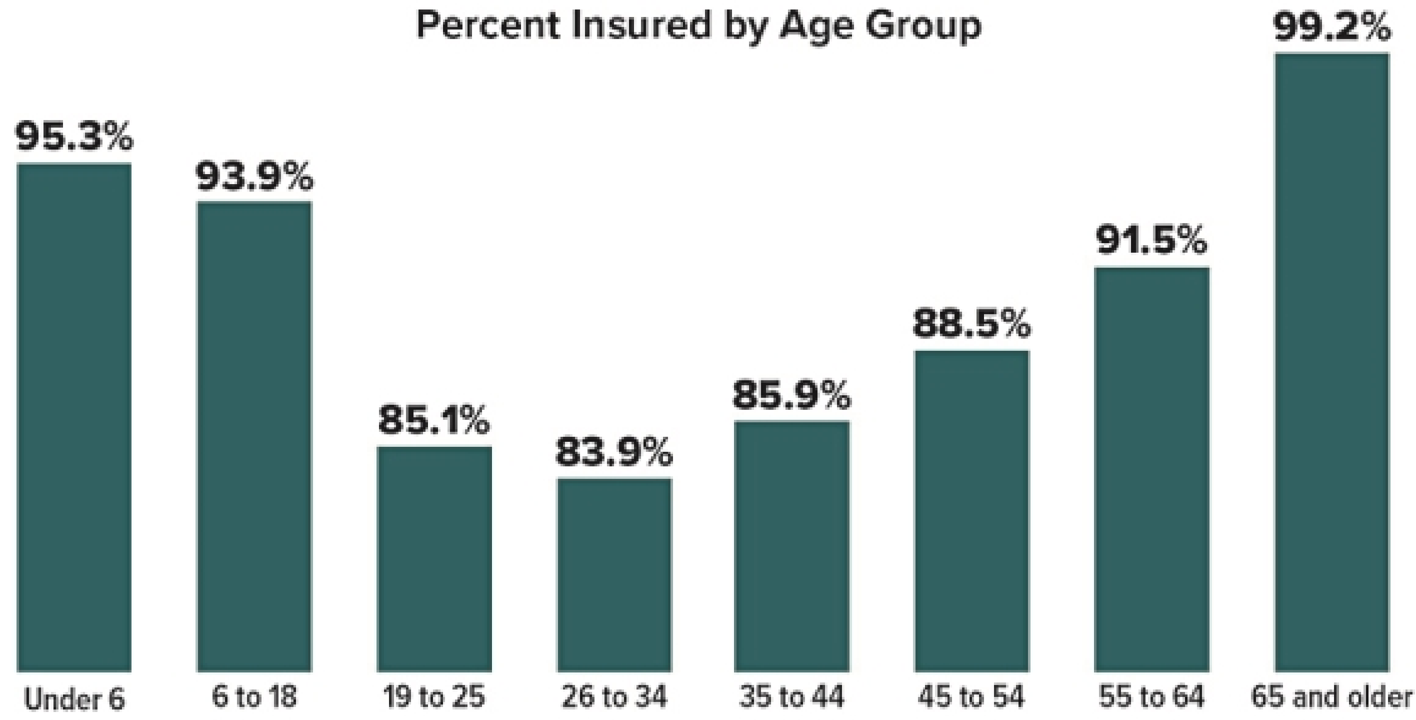
Young Adults Are More Likely to Lack Health Coverage

Children are often covered by a parent's health plan or by public health insurance such as the Children's Health Insurance Program (CHIP). But young adults generally lose eligibility for CHIP at age 19 and for coverage under a parent's health plan at age 26. Before they transition into employer-sponsored health plans or buy private health insurance, young adults are more likely to be uninsured than other age groups.



Source: American Community Survey, U.S. Census Bureau, 2020

Considerations When Making Gifts to Children

If you make significant gifts to your children or someone else's children (perhaps a grandchild, a nephew, or a niece), or if someone else makes gifts to your children, there are a number of things to consider.

Nontaxable Gift Transfers

There are a variety of ways to make transfers to children that are not treated as taxable gifts. Filing a gift tax return is generally required only if you make gifts (other than qualified transfers) totaling more than $15,000 per individual during the year.

- **Providing support.** When you provide support to a child, it should not be treated as a taxable gift if you have an obligation to provide support under state law. Parents of minor children, college-age children, boomerang children, and special-needs children may find this provision very useful.
- **Annual exclusion gifts.** You can generally make tax-free gifts of up to $15,000 per child each year. If you combine gifts with your spouse, the amount is effectively increased to $30,000.
- **Qualified transfers for medical expenses.** You can make unlimited tax-free gifts for medical care, provided the gift is made directly to the medical care provider.
- **Qualified transfers for educational expenses.** You can make unlimited gifts for tuition free of gift tax, provided the gift is made directly to the educational provider.

For purposes of the generation-skipping transfer (GST) tax, the same exceptions for nontaxable gift transfers generally apply. The GST tax is a separate tax that generally applies when you transfer property to someone who is two or more generations younger than you, such as a grandchild.

Income Tax Issues

A gift is not taxable income to the person receiving the gift. However, when you make a gift to a child, there may be several income tax issues regarding income produced by the property or from sale of the property.

- **Income for support.** Income from property owned by your children will be taxed to you if used to fulfill your obligation to provide support.
- **Kiddie tax.** Children subject to the kiddie tax are generally taxed at their parents' tax rates on any unearned income over $2,200 (in 2021). The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.
- **Basis.** When a donor makes a gift, the person receiving the gift generally takes an income tax basis equal to the donor's basis in the gift. The income tax basis is generally used to determine the amount of taxable gain if the child then sells the property. If instead the property were transferred to the child at your death, the child would receive a basis stepped up (or down) to the fair market value of the property.

Gifts to Minors

Outright gifts should generally be avoided for any significant gifts to minors. For this purpose, you might consider a custodial gift or a trust for a minor.

- **Custodial gifts.** Gifts can be made to a custodial account for the minor under your state's version of the Uniform Gifts/Transfers to Minors Acts. The custodian (an adult or a trust company) holds the property for the benefit of the minor until an age (often 21) specified by state statute.
- **Trust for minor.** A Section 2503(c) trust is specifically designed to obtain the annual gift tax exclusion for gifts to a minor. Principal and income can (but need not) be distributed to the minor before age 21. The minor does generally gain access to undistributed income and principal at age 21. *(The use of trusts involves a complex web of tax rules and regulations, and usually involves upfront costs and ongoing administrative fees. You should consider the counsel of an experienced estate professional before implementing a trust strategy.)*

Transfer by Gift Versus Transfer at Death

Difference in taxable gain when appreciated property is sold at fair market value (FMV) after the transfer.

Calculation Steps	Transfer by Gift	Transfer at Death
Sales price (FMV)	$100,000	$100,000
– Income tax basis	– $20,000 (carryover of donor's basis)	– $100,000 (stepped-up to FMV)
Taxable gain	= $80,000	= $0

Decisions, Decisions: Weighing the Pros and Cons of an IRA Rollover

If you lose a job, switch employers, or step into retirement, you might consider rolling your retirement plan savings into an IRA. But this isn't your only option; it could make more sense to keep the money in your previous employer's plan or move it to your new employer's plan (if allowed by the plan).

You could also cash out, but that's rarely a good idea. Withdrawals from tax-deferred retirement accounts are taxed as ordinary income, and you could be hit with a 10% tax penalty if you are younger than 59½, unless an exception applies.

Some employer plans permit in-service distributions, which allow employees to take a partial distribution from the plan and roll the money into an IRA. When deciding what to do with your retirement assets, be aware that IRAs are subject to different rules and restrictions than employer plans such as 401(k)s.

What IRAs Have to Offer

There are many reasons to consider an IRA rollover.

Investment choice. The universe of investment options in an IRA is typically much larger than the selection offered by most employer plans. An IRA can include individual securities and alternative investments as well.

Retirement income. Some employer plans may require you to take a lump-sum distribution when you reach the plan's retirement age, and your distribution options could be limited if you can leave your assets in the plan. With an IRA, it's likely that there will be more possibilities for generating income, and the timing and amount of distributions are generally your decision [until you must start taking required minimum distributions (RMDs) at age 72].

Top Reasons for Most Recent IRA Rollover

- **69%** Didn't want to leave assets with former employer
- **65%** Wanted to preserve tax treatment of savings
- **57%** Wanted to consolidate assets
- **55%** Wanted more investment options
- **44%** Was required to remove the money from former employer's plan

Source: Investment Company Institute, 2021 (more than one reason allowed per respondent)

Account consolidation. Consolidating your investments into a single IRA may provide a clearer picture of your portfolio's asset allocation. This could make it easier to adjust your holdings as needed and calculate RMDs.

Different exceptions. There are circumstances when IRA owners may be able to withdraw money penalty-free prior to age 59½, options that are not available to employer plan participants. First-time homebuyers (including those who haven't owned a home in the previous two years) may be able to withdraw up to $10,000 (lifetime limit) toward the purchase of a home. IRA funds can also be withdrawn to pay qualified higher-education expenses for yourself, a spouse, children, or grandchildren. IRA funds can even be used to pay for health insurance premiums if you are unemployed.

When to Think Twice

For some people, there may be advantages to leaving the money in an employer plan.

Specific investment options. Your employer's plan may offer investments that are not available in an IRA, and/or the costs for the investments offered in the plan may be lower than those offered in an IRA.

Stronger creditor protection. Most qualified employer plans receive virtually unlimited protection from creditors under federal law. Your creditors cannot attach your plan funds to satisfy any of your debts and obligations, regardless of whether you've declared bankruptcy. On the other hand, IRAs are generally protected under federal law (up to $1,362,800) only if you declare bankruptcy. Any additional protection will depend on your state's laws.

The opportunity to borrow from yourself. Many employer plans offer loan provisions, but you cannot borrow money from an IRA. The maximum amount that employer plan participants may borrow is 50% of their vested account balance or $50,000, whichever is less.

Penalty exception for separation from service. Distributions from your employer plan won't be subject to the 10% tax penalty if you retire during the year you reach age 55 or later (age 50 for qualified public safety employees). There is no such exception for IRAs.

Postponement of RMDs. If you work past age 72, are still participating in your employer plan, and are not a 5% owner, you can delay your first RMD from that plan until April 1 following the year in which you retire.

Three Reasons to Keep Your Personal and Business Finances Separate

If you are launching a new venture, you may wonder whether it's necessary to open a dedicated bank account for your business. Even if your company is established and already has separate checking and credit-card accounts, you may be tempted to pay business expenses from personal accounts on occasion — or vice versa — particularly during tough times.

The more your business and personal outlays become entwined, the harder it is to manage your company's cash flow, payroll, and taxes. It might also be difficult to keep tabs on the company's financial performance.

Here are three key reasons to draw a clear line between your business and personal finances — and do your best never to cross it.

To Increase Purchasing and Borrowing Power

To open a business bank account, you may be required to obtain an Employer Identification Number (EIN) from the Internal Revenue Service. Building a relationship with a bank that serves small businesses might provide access to other important financial services and resources, such as a merchant account, a line of credit, and a business credit card.

Using a business credit card responsibly is one way to establish the positive credit history that could help you qualify for larger business loans with better rates and terms, and without personal guarantees, in the future.

To Make Life Easier at Tax Time

Maintaining separate bank and credit accounts means you won't have to spend time sorting business purchases from personal ones.

As a small-business owner or independent contractor, you may be eligible for a long list of tax deductions that don't apply to regular wage earners. Careful tracking of your business expenses can help you and your tax professional take full advantage of deductions and reduce your tax burden.

To Protect Personal Assets

If your business struggles, it could pose a threat to your personal assets and credit. Paying business expenses directly from personal accounts might help substantiate a creditor's claim that your business was being run improperly.

Keeping your financial accounts separate may be especially critical if your business is incorporated as a C corp, an S corp, or a limited liability company (LLC). The corporate veil, which refers to the legal distinction between a corporation and its owners, is designed to protect the owners from liability related to the company's actions. However, commingling personal and business funds could pierce the corporate veil and leave your personal assets vulnerable to business debts, losses, and lawsuits.
