MAY 2022 VOLUME 5

BOGGS & COMPANY

WEALTH MANAGEMENT

BUILDING OPPORTUNITIES GUIDING GENERATIONAL SUCCESS

MONTHLY FEATURES

MAY REMINDERS

As we approach the midpoint of the year, have you been staying on top of the goals you set in January? Now is a great time to take a look and recommit yourself to these goals.

- **Now Accepting New Clients:** If you know someone, contact info@boggsandcompany.com and someone will contact your referral within 24 hours?
- **Want to go paperless?** See the accompanying document for instructions. Contact our office at info@boggsandcompany.com or (301) 798-7669 if you have any questions.

YOUR ESTATE AND LIFE INSURANCE: IT ALL ADDS UP

It can be fairly easy to underestimate your net worth. After all, predicting the future value of your home and savings is merely hypothetical. On the other hand, you can rely on the fixed amount of the death benefit provided by your life insurance policy. However, adding this often significant sum to your asset pool could expose your estate to the Federal estate tax.

Many people assume that, because death benefit proceeds from a life insurance policy are generally not considered taxable income to the beneficiary, a life insurance policy is out of the reach of the Internal Revenue Service (IRS). However, when the policy's death benefits are added to the appreciated value of your home and savings, the value of your estate may exceed the applicable exclusion amount.

Although the unlimited marital deduction allows spouses to transfer assets between one another free of estate taxes, non-spousal heirs face the possibility of seeing a life insurance policy bring an estate's value above the scheduled exemption amount in the year of death, which would increase estate taxes. Fortunately, there are trusts that can exclude life insurance from an estate.

Credit-Shelter Trust

One strategy to remove a life insurance policy from your estate is to use a type of bypass trust known as a credit-shelter trust. Essentially, a trust is an arrangement whereby one person holds legal title to an asset and manages it for the benefit of another.

For estate conservation purposes, a trust could be set up to maximize each spouse's applicable exclusion amount, perhaps sheltering more assets from estate taxation than may be possible through the use of the unlimited marital deduction alone. At the death of one spouse, an amount equal to his or her applicable exclusion amount could pass to a trust to benefit the surviving spouse, with the remainder of the assets passing outright to him or her. Then, at the death of the surviving spouse, assets in the credit-shelter trust could be paid to the couple's children—without being subject to Federal estate taxes. Any assets outside the trust upon the surviving spouse's death, and therefore potentially subject to the Federal estate tax, could be further sheltered by the surviving spouse's applicable exclusion amount for that year.

The ILIT Option

When children are the beneficiaries of a life insurance policy and the owner wants to exempt the policy from the estate's total worth, an irrevocable life insurance trust (ILIT) can be another approach.

However, the term irrevocable means policy beneficiaries may not be changed and loans may not be paid out from the policy once put into the trust. Including a high-value life insurance policy into such a trust could help beneficiaries finance the purchase of a family business or pay estate taxes. It is important to note that funding an ILIT may result in gift taxes due.

Depending on the type, trusts offer flexibility and may help to reduce or defer taxes on high-value assets such as a life insurance policy. In general, a trust can help the policy's benefits go directly to the intended beneficiary. Be sure to consult with your tax and legal professionals to work with you to help develop a plan for your overall estate planning strategies.

Important Disclosures:
The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.
Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.
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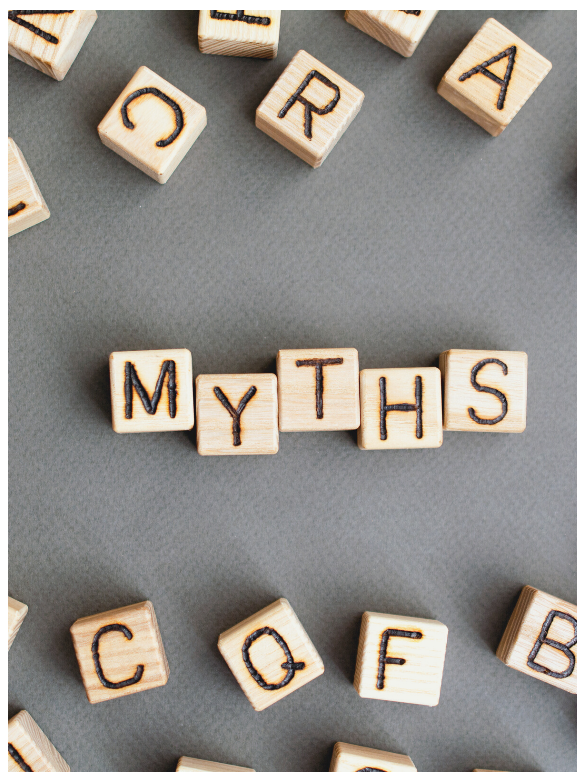
3 MYTHS ABOUT CONVERTING AN IRA TO A ROTH IRA AFTER AGE 60

Suppose you have read or watched a story about converting an IRA to a Roth IRA after age 60. In that case, you may have seen this strategy portrayed negatively or only highlighting the benefits. This article will cover myths about converting an IRA to a Roth IRA to help you determine if this strategy is appropriate for you.

First, it is essential that you understand how a Roth IRA works. Roth IRAs are funded with after-tax dollars, and withdraws later are federal tax-free, regardless of how much your investment has gained. Since investors are required to pay taxes on their pre-tax contributions and accumulation in other types of retirement savings vehicles, the Roth IRA is an option that offers a tax-free benefit to qualifying investors.

- Roth IRAs have income limits- Single people with an adjusted gross income (AGI) under $144,000 and married couples with an AGI under $214,000 for the tax year 2022 can contribute to a Roth IRA in 2022.
- Roth IRAs have contribution limits- For 2022, Roth IRA limits are $6000 for investors under age 50 and $7000 for investors over age 50.
- Roth IRAs have no Required Minimum Distribution age (RMD).



Next, we examine some of the myths about IRA to Roth IRA conversions after age 60:

Myth #1- Only people with an AGI under the 2022 Roth IRA limits can do an IRA to Roth IRA conversion.

False. Through a backdoor Roth IRA conversion strategy, investors making more than the Roth IRA limits can convert their IRA to a Roth IRA. Backdoor Roth IRA conversions are beneficial to high earners whose annual income (plus access to workplace retirement plans) makes them ineligible for tax deductions for traditional IRA contributions or unable to contribute to a Roth IRA.

However, investors considering a backdoor Roth IRA conversion need to be aware that the U.S. Congress may pass legislation that would reduce some of its benefits after 2021. The use of Roth IRA conversions by high-income taxpayers would eliminate in 2032 if passed. Therefore, keep in touch with your financial professional for the latest backdoor Roth IRA conversions if you consider this strategy.

Myth #2- Roth IRA accounts have taxes due on withdrawals.

False. Taxes are due upon the conversion of the IRA to a Roth IRA, so taxes are paid upfront. A Roth IRA conversion may incur higher taxes when established, but the investor will receive the future tax savings of a Roth IRA account.

For this reason, it is essential that you meet with your financial and tax professionals to determine what your tax liability will be upon conversion. Also, note that taxes are not deducted from the IRA's balance before conversion, which means you must pay taxes upfront in cash.

Myth #3- Roth IRA accounts have to be open for five years before taking withdrawals, or you pay taxes.

False. If you don't meet the five-year rule, that doesn't mean all of your withdrawals will be taxed. You can still withdraw the amounts you contributed without being taxed because your money was an after-tax contribution upon conversion and falls under the first-in, first-out (FIFO) basis. So any withdrawals made come from contributions first. Therefore, no earnings will be considered touched until all contributions are withdrawn.

What else should investors over age 60 know about IRA conversions?

- A Roth IRA conversion strategy may make sense if the person believes they will be in a higher tax bracket in the future and will save money by paying taxes now rather than later.
- For investors over age 60, a Roth IRA conversion may be a strategy to help lower estate taxes for their heirs.
- If an investor over age 60 doesn't need the money from their Roth IRA, they don't need to take RMDs.
- Roth conversions completed after Dec. 31, 2017, cannot be turned back into traditional IRAs, as was previously the case.
- A Roth IRA conversion is a strategy for assets initially contributed to a Traditional IRA, SEP-IRA, SIMPLE IRA, or 401(k) that is now in a Roth IRA after an IRA conversion.
- An IRA conversion may incur higher taxes when established, but the investor will receive the future tax savings of a Roth IRA account.
- Are you considering a Roth IRA conversion?

We can help you determine if a Roth IRA conversion is appropriate for your situation and help you weigh the pros and cons of this strategy. Contact us today.

Important Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing.

The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change.

Traditional IRA account owners should consider the tax ramifications, age and income restrictions in regards to executing a conversion from a Traditional IRA to a Roth IRA. The converted amount is generally subject to income taxation.

All information is believed to be from reliable sources; however LPL Financial makes no representation as to its completeness or accuracy.

This article was prepared by Fresh Finance.

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MAY 29TH IS A NATIONWIDE CELEBRATION OF 529 DAY

May 29th marks the nationwide celebration of 529 Day, an opportunity to highlight the many benefits of 529 college savings plans. As higher education costs continue to soar, many parents find themselves faced with the nagging question, "Will I have enough money to pay for my child's college education?" One often overlooked savings option is a state-sponsored 529 plan.

These plans offer great tax benefits, while allowing you to contribute substantially higher sums than other savings alternatives.

529 plans generally come in two forms. The first form – prepaid tuition programs – allows participants to lock in tuition rates at eligible state colleges or universities with a lump-sum investment or monthly installment payments. In some states, a portion of the contract value may also be applied to private or out-of-state schools. (formerly known as an education IRA).

Tax Benefits

Although contributions are not deductible, (earnings in a 529 plan grow federal tax-free and are not taxed when the money is taken out to pay for college. Often times, the 529 account must be open for at least 12 months before any money can be withdrawn, so read the fine print. Further, various states may also offer their own tax breaks.

Special Estate Planning Features

One unique feature of 529 plans is that they allow you to move up to $16,000 out of your estate

($32,000 per couple) annually.

Another unique feature of 529 Plans is that you can make a lump-sum contribution to a 529 plan of up to five times the annual gift tax exclusion ($80,000 in 2022), elect to spread the gift evenly over five years, and completely avoid federal gift tax, provided no other gifts are made to the same beneficiary during the five-year period.
The donor generally retains control of the account and may be assessed a penalty for "nonqualified" withdrawals.

Other Considerations

Professional Management. 529 plans offer a "hands-off" savings approach: Funds invested in the plan are professionally managed.

Penalty for Refunds. You will be subject to a federal 10% penalty on the earnings portion of a nonqualified withdrawal. In addition, the earnings on nonqualified withdrawals are taxed at your tax rate and not the student's. However, you may be able to avoid a nonqualified withdrawal by rolling over the account to a new beneficiary.

Effect on Financial Aid. Any investment may affect a student's eligibility for financial aid. Earnings withdrawn from a 529 plan are treated as income to the child and will show up on the following year's financial aid application. Thus, you may want to reserve 529 funds for use in a student's later years.

It's Worth a Look

Keep in mind, there is no guarantee that any investment portfolio will achieve its investment goals. The value of your 529 account will fluctuate as the value of the mutual fund shares in which it invests fluctuates, so that your investment, when it is withdrawn, may be worth more or less than its original cost. Also, be aware that out-of-state plans may have in-state income tax ramifications.
For more complete information on 529 plans, contact us today!

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