

The Natelli Group Monthly



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31.5%

Share of the total NIIT collected in 2019 paid by taxpayers with MAGIs of \$10 million or more, with an average amount of \$449,642. By comparison, taxpayers with MAGIs between \$200,000 and \$500,000 accounted for 14.1% of the total collected, and their average NIIT bill was \$1,054.

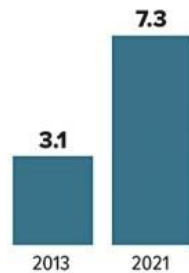
Source: Congressional Research Service, 2023 (uses IRS data)

Investors Beware: This Surtax Is Creeping Up on You

High-income taxpayers are subject to a 3.8% net investment income tax (NIIT) from capital gains, dividends, interest, certain royalties, rents, and passive income if their modified adjusted gross income (MAGI) exceeds \$200,000 for single filers or \$250,000 for married joint filers. The number of taxpayers paying the NIIT has more than doubled since it took effect, mostly because these income thresholds were not indexed to inflation, and the revenue collected has more than tripled.

Source: Congressional Research Service, 2023 (uses IRS data)

Number of taxpayers subject to NIIT (in millions)



NIIT revenue (in billions)



Beware of These Life Insurance Beneficiary Mistakes

Life insurance has long been recognized as a useful way to provide for your heirs and loved ones when you die. While naming your policy's beneficiaries should be a relatively simple task, there are a number of situations that can easily lead to unintended and adverse consequences. Here are several life insurance beneficiary traps you may want to discuss with a professional.

Not naming a beneficiary

The most obvious mistake you can make is failing to name a beneficiary of your life insurance policy. But simply naming your spouse or child as beneficiary may not suffice. It is conceivable that you and your spouse could die together or that your named beneficiary may die before you and you haven't named successor beneficiaries. If the beneficiaries you designated are not living at your death, the insurance company may pay the death proceeds to your estate, which can lead to other potential problems.

Death benefit paid to your estate

If your life insurance is paid to your estate, several undesired issues may arise. First, the insurance proceeds likely become subject to probate, which may delay the payments to your heirs. Second, life insurance that is part of your probate estate is subject to claims of your probate creditors. Not only might your heirs have to wait to receive their share of the insurance, but your creditors may satisfy their claims out of those proceeds first.

Naming a minor child as beneficiary

Insurance companies will rarely pay life insurance proceeds directly to a minor. Typically, the court appoints a guardian — a potentially costly and time-consuming process — to handle the proceeds until the minor beneficiary reaches the age of majority according to state law. If you want the life insurance proceeds to be paid for the benefit of a minor, you may consider creating a trust that names the minor as beneficiary. Then the trust manages and pays the proceeds from the insurance according to the terms and conditions you set out in the trust document.

Consult with an estate attorney to decide on the course that works best for your situation.




Disqualifying a beneficiary from government assistance

A beneficiary you name to receive your life insurance may be receiving or be eligible to receive government assistance due to a disability or other special circumstance. Eligibility for government benefits is often tied to the financial circumstances of the recipient. The payment of insurance proceeds may be a financial windfall that disqualifies your beneficiary from eligibility for government benefits, or the proceeds may have to be paid to a government entity

as reimbursement for benefits paid. Again, an estate attorney can help you address this issue.

Life Insurance Payout Options

Most life insurance policies offer several options to the policy beneficiary, including:

 Lump sum payment	The most common choice. A one-time payment is made of the death benefit proceeds to the beneficiary.
 Lifetime annuity	The death benefit proceeds are converted to an income annuity, which makes a fixed, periodic payment to the beneficiary for the rest of his/her life.
 Fixed period annuity	Like the lifetime annuity, except the payments will be made over a specified period of time, such as 10 years, after which, payments cease.

Creating a taxable situation

Generally, life insurance death proceeds are not taxed when they're paid. However, there are exceptions to this rule, and the most common situation involves having three different people as policy owner, insured, and beneficiary. Typically, the policy owner and the insured are one and the same person. But sometimes the owner is not the insured or the beneficiary. For example, mom may be the policy owner on the life of dad for the benefit of their children. In this situation, mom is effectively creating a gift of the insurance proceeds for her children/beneficiaries. As the donor, mom may be subject to gift tax. Consult a financial or tax professional to figure out the best way to structure the policy.

As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing such strategies.

Much Ado About RMDs

The SECURE 2.0 Act, passed in late 2022, included numerous provisions affecting retirement savings plans, including some that impact required minimum distributions (RMDs). Here is a summary of several important changes, as well as a quick primer on how to calculate RMDs.

What Are RMDs?

Retirement savings accounts are a great way to grow your nest egg while deferring taxes. However, Uncle Sam generally won't let you avoid taxes indefinitely. RMDs are amounts that the federal government requires you to withdraw annually from most retirement accounts after you reach a certain age.

Currently, RMDs are required from traditional IRAs, SEP and SIMPLE IRAs, and work-based plans such as 401(k), 403(b), and 457(b) accounts.

If you're still working when you reach RMD age, you may be able to delay RMDs from your current employer's plan until after you retire (as long as you don't own more than 5% of the company); however, you must still take RMDs from other applicable accounts.

While you can always withdraw more than the required minimum, if you withdraw less, you'll be subject to a federal penalty.

Four Key Changes

1. Perhaps the most notable change resulting from the SECURE 2.0 Act is the age at which RMDs must begin. Prior to 2020, the RMD age was 70½. After passage of the first SECURE Act in 2019, the age rose to 72 for those reaching age 70½ after December 31, 2019. Beginning in 2023, SECURE 2.0 raised the age to 73 for those reaching age 72 after December 31, 2022, and, in 2033, to 75 for those who reach age 73 after December 31, 2032.

When Must RMDs Begin?

Date of Birth	RMD Age
Before July 1, 1949	70½
July 1, 1949, through 1950	72
1951 through 1959	73
1960 or later	75

2. A second important change is the penalty for taking less than the total RMD amount in any given year. Prior to passage of SECURE 2.0, the penalty was 50% of the difference between the amount that should have been distributed and the amount actually withdrawn. The tax is now 25% of the difference and may be

reduced further to 10% if the mistake is corrected in a timely manner (as defined by the IRS).

3. A primary benefit of Roth IRAs is that account owners (and typically their spouses) are not required to take RMDs from those accounts during their lifetimes, which can enhance estate-planning strategies. A provision in SECURE 2.0 brings

work-based Roth accounts in line with Roth IRAs.

Beginning in 2024, employer-sponsored Roth 401(k) accounts will no longer be subject to RMDs during the original account owner's lifetime. (Beneficiaries, however, must generally take RMDs after inheriting accounts.)

4. Similarly, a provision in SECURE 2.0 ensures that surviving spouses who are sole beneficiaries of a work-based account are treated the same as their IRA counterparts beginning in 2024. Specifically, surviving spouses who are sole beneficiaries and inherit a work-based account will be able to treat the account as their own. Spouses will then be able to use the favorable uniform lifetime table, rather than the single life table, to calculate RMDs. Spouses will also be able to delay taking distributions until they reach their RMD age or until the account owner would have reached RMD age.

How to Calculate RMDs

RMDs are calculated by dividing your account balance by a life expectancy factor specified in IRS tables (see IRS Publication 590-B). Generally, you would use the account balance as of the previous December 31 to determine the current year's RMD.

For example, say you reach age 73 in 2024 and have \$300,000 in a traditional IRA on December 31, 2023. Using the IRS's Uniform Lifetime Table, your RMD for 2024 would be \$11,321 ($\$300,000 \div 26.5$).

The IRS allows you to delay your first RMD until April 1 of the year following the year in which it is required. So in the above example, you would be able to delay the \$11,321 distribution until as late as April 1, 2025. However, you will not be allowed to delay your second RMD beyond December 31 of that same year — which means you would have to take two RMDs in 2025.

This could have significant implications for your income tax obligation, so beware.

An RMD is calculated separately for each IRA you have; however, you can withdraw the total from anyone or more IRAs. Similar rules apply to 403(b) accounts.

With other work-based plans, an RMD is calculated for and paid from each plan separately.

For more information about RMDs, contact your tax or financial professional. There is no assurance that working with a financial professional will improve investment results.

Braving the Housing Market? An Assumable Mortgage Might Be the Solution

This past year, the housing market has experienced a perfect storm, with high interest rates and inflation resulting in reduced purchasing power for homebuyers. In addition, many current homeowners were reluctant to sell — and give up their lower mortgage rates — leading to lower housing inventory and higher home prices.

If you have been struggling to buy a home in the current market, one possible solution is to look for a home with an assumable mortgage. If you're thinking of selling your current home, having an assumable mortgage can make it more marketable and appealing to buyers.

When a mortgage is assumable, a buyer can take over the seller's existing mortgage and continue making payments on the original terms. This includes the interest rate, payment schedule, and remaining loan

balance. In the current market, a buyer may be able to assume a mortgage with a more favorable interest rate than what they would be able to get when applying for a new home loan. To assume a mortgage, the homebuyer must meet the original lender's qualification requirements and pay closing costs.

One major drawback of an assumable mortgage is that the homebuyer must come up with a down payment that will make up any difference between the sale price and the outstanding balance on the original mortgage loan. This means that the homebuyer must either pay

cash or take out a second mortgage to cover the remainder of the purchase price. For example, if a home is selling for \$500,000, and the seller still owes \$300,000 on the mortgage loan, the down payment would be \$200,000. If the original loan has a low enough interest rate, an assumable mortgage could be advantageous for a homebuyer with access to enough cash or financing to cover the difference between the sale price and outstanding balance of the assumed loan.



Interest rates for fixed-rate mortgage loans rose to a 20-year high in late 2023.

Source: Freddie Mac, 2023

It's important to note that not all mortgage loans are assumable. As a result, finding a home with an assumable mortgage may be difficult, and if you do find one, competition may be fierce. Generally, assumable mortgages are limited to government-backed loans from the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), or U.S. Department of Agriculture (USDA). Unique terms, requirements, and fees may apply.

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