SOUTHERN PRACTICE
CONSULTING GROUP, LLC

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CHAPTER 1
INVESTMENTS

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Things to Consider Before Investing

Stocks

- **Guarantee:** No
- **Safety:** Some
- **Return:** High/Low
- **Probate:** Yes (with Bond)
- **Access:** No
- **Tax Deferred:** No
- Principal Guaranteed: No

Certificates of Deposit (CD)

- **Guarantee:** Yes
- **Safety:** Yes
- **Return:** Poor
- **Probate:** Yes
- **Access:** Fair
- **Tax Deferred:** No
- **Principal Guaranteed:** Yes

Mutual Funds

- **Guarantee:** No
- **Safety:** Some
- **Return:** High/Low
- **Probate:** Yes (with Bond)
- **Access:** Yes
- **Tax Deferred:** Maybe
- **Principal Guaranteed:** No

Annuities

- **Guarantee:** Yes
- **Safety:** Yes
- **Return:** Good
- **Probate:** No
- **Access:** Yes
- **Tax Deferred:** Yes
- **Principal Guaranteed:** Yes

Government Issues

- **Guarantee:** Yes/No
- **Safety:** Yes
- **Return:** Average
- **Probate:** Yes
- **Access:** Some
- **Tax Deferred:** No
- **Principal Guaranteed:** Yes

Corporate Bonds

- **Guarantee:** No
- **Safety:** Average/Poor
- **Return:** Good
- **Probate:** Yes
- **Access:** No
- **Tax Deferred:** No
- **Principal Guaranteed:** No

Municipal Bonds
(TAX-FREE)

- **Guarantee:** No
- **Safety:** Fair
- **Return:** Fair
- **Probate:** Yes
- **Access:** Yes
- **Tax Deferred:** Yes
- **Principal Guaranteed:** No

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Maximizing Returns with Tax-Efficient Growth

The chart below highlights the impact of tax control on investment growth. By comparing the growth of a daily doubling investment with and without a 28% tax, the difference is clear. This emphasizes the importance of tax-efficient strategies in significantly boosting your returns over time.

Day	Double (without tax)	Double (less 28% tax on daily increasee)
1	$0.01	$0.01
2	$0.02	$0.02
3	$0.04	$0.03
4	$0.08	$0.05
5	$0.16	$0.09
6	$0.32	$0.15
7	$0.64	$0.26
8	$1.28	$0.45
9	$2.56	$0.77
10	$5.12	$1.32
11	$10.24	$2.27
12	$20.48	$3.90
13	$40.96	$6.70
14	$81.92	$11.53
15	$163.84	$19.83
16	$327.68	$34.11

Day	Double (without tax)	Double (less 28% tax on daily increasee)
17	$655.36	$58.68
18	$1,310.72	$100.92
19	$2,621.44	$173.58
20	$5,242.88	$298.57
21	$10,485.76	$513.53
22	$20,971.52	$883.28
23	$41,943.04	$1,519.24
24	$83,886.03	$2,613.09
25	$167,772.16	$4,494.51
26	$335,544.32	$7,730.56
27	$671,772.16	$13,296.57
28	$1,342,177.28	$22,870.10
29	$2,684,354.56	$39,336.57
30	$5,368,709.12	$67,658.90
31	$10,737,418.24	$116,373.32

It’s easy to see how you can make your taxes work for you by earning returns, rather than just paying taxes on your earnings.

The Rule of 72 + the Rule of 115

POPULAR QUESTION:
"How Long Will It Take to Double or Triple an Investment?"

The Rule of 72 is a handy mathematical rule that helps in estimating approximately how many years it will take for an investment to double in value at a specified rate of return.[1]

Rule of 72

If 72 is divided by an interest rate, the result is the approximate number of years needed to double the investment. For example, at a 1% rate of return, an investment will double in approximately 72 years; at a 10% rate of return it will take only 7.2 years, etc.

Rule of 115

The Rule of 115 is similar in that it estimates how long it takes an investment to triple in value.

If 115 is divided by an interest rate, the result is the approximate number of years needed to triple an investment. For example, at a 1% rate of return, an investment will triple in approximately 115 years; at a 10% rate of return it will take only 11.5 years, etc.

Rate of Return	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%
Years to Double	72	36	24	18	14.4	12	10.3	9	8	7.2	6.5
Years to Triple	115	57.5	38.3	28.8	23	19.2	16.4	14.4	12.8	11.5	10.5

Rate of Return	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%
Years to Double	72	36	24	18	14.4	12	10.3	9	8	7.2	6.5
Years to Triple	115	57.5	38.3	28.8	23	19.2	16.4	14.4	12.8	11.5	10.5

These rules can also tell you how long before a given item will double or triple in price at an estimated average rate of inflation.

EXAMPLE: At an estimated average inflation rate of 8%, a loaf of bread will double in price every nine years. (72 ÷ 8= 9).[2]

[1] Investing involves risk, including the possible loss of principal. [2] The examples discussed here are hypothetical illustrations, shown for informational purposes only. They are not intended to represent any specific investment.

CHAPTER 2

RETIREMENT PLANS

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IRAs Compared

There are substantial differences between a traditional (nondeductible) IRA, a traditional (deductible) IRA, and a Roth IRA.

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
Basic eligibility requirements	Any person of any age who has compensation.	Any person of any age who has compensation.	Any person of any age who has compensation.[1]
Maximum contribution	Generally, the lesser of $7,000[2] ($14,000[3] for a married couple) or 100% of compensation.[4]		
Is the contribution deductible?	No	Yes, if neither spouse is covered by a qualified plan (QP). If single and covered by a QP, contribution is deductible if modified adjusted gross income (MAGI) is less than $77,000. Deduction phased out for MAGI between $77,000 and $87,000. If MFJ and one spouse is covered by a QP, the nonparticipant spouse may make a deductible contribution if MAGI is $230,000 or less. This deduction is phased out for MAGI between $230,000 and $240,000. The participant spouse may make a deductible contribution if MAGI is $123,000 or less. This deduction is phased out for MAGI between $123,000 and $143,000.[5]	No

[1] For 2024, the maximum contribution to a Roth IRA is phased out for single taxpayers with modified adjusted gross income (MAGI) between $146,000 and $161,000. For married couples filing jointly, the phase-out range is a MAGI of $230,000 to $240,000. For married individuals filing separately, the phase-out range is a MAGI of $0 to $10,000.

[2] This amount applies to 2024. For 2023, the maximum allowable contribution was $6,500.

[3] This amount applies to 2024. For 2023, the maximum allowable contribution was $13,000.

[4] If an IRA owner is age 50 or older, he or she may contribute an additional $1,000 ($2,000 if the spouse is also age 50 or older).

[5] These are 2024 limits. For 2023 the phase-out ranges were (1) MFJ - MAGI of $116,000 - $136,000; (2) Single - $73,000 - $83,000. For taxpayers using the MFS filing status, the phase-out range is $0 - $10,000, which does not change.

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
Are earnings currently taxed?	No	No	No
Taxation of withdrawals at death or disability[1]	Contributions are received tax-free and earnings are taxable.	All distributions are taxable.	No taxation of qualified distributions.
Taxation of $10,000 withdrawn for first-time home purchase[1]	Proportionate part attributable to earnings is taxable.	All $10,000 subject to income tax.	"Qualified" distributions are not subject to tax. The earnings portion of a "non-qualified" distribution is taxable at ordinary rates.[2]
Taxation of withdrawals to pay for deductible medical expenses, e.g., expenses in excess of 7.5% of adjusted gross income (AGI)	Proportionate part attributable to earnings taxed as ordinary income. For those under age 59½, 10% penalty does not apply to amounts that qualify as deductible medical expenses, e.g., amounts in excess of 7.5% of AGI.	Entire withdrawal taxable as ordinary income. For those under age 59½, 10% penalty does not apply to amounts that qualify as deductible medical expenses, e.g., amounts in excess of 7.5% of AGI.	"Qualified" distributions are not subject to tax. The earnings portion of a "non-qualified" distribution is taxable at ordinary rates.[2]
Taxation of withdrawals to pay for qualified higher education expenses[1]	Proportionate part attributable to earnings is taxable.	Entire withdrawal is subject to income tax.	"Qualified" distributions are not subject to tax. The earnings portion of a "non-qualified" distribution is taxable at ordinary rates.[2]

[1] For individuals under age 59½, the 10% penalty tax does not apply in these situations.

[2] Generally, a "qualified" distribution is one made at least five years after a contribution is first made to a Roth IRA and because the owner reaches age 59½, dies, becomes disabled, or uses the funds to pay for first-time homebuyer expenses.

IRAs Compared

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
Taxation of distributions not covered above[1]	Nondeductible contributions received tax-free. Earnings are taxed at ordinary rate.	All distributions are taxable at ordinary rates.	"Qualified" distributions are not subject to tax. The earnings portion of a "non-qualified" distribution is taxable at ordinary rates.[2]
Are there required minimum distributions (RMDs) during the owner's lifetime?	RMDs must start by April 1 of the year after the year the account owner reaches age 73[3].	RMDs must start by April 1 of the year after the year the account owner reaches age 73[3].	No RMDs is required during the life of owner.
Are direct transfers of funds in an IRA to a Health Savings Account allowed?	Yes	Yes	Yes
By when must an IRA be set up and funded?	By the due date for filing the IRA owner's federal income tax return for the year of the contribution, generally April 15 of the following year.		
Federal bankruptcy protection	Federal bankruptcy law protects assets in all IRAs, up to $1,512,350. Funds rolled over from qualified plans are protected without limit. State law may vary.		
Are charitable distributions of up to $105,000 (2024) to a qualified charity by an owner at least age 70½ allowed?	Yes	Yes	Yes
Are *one-time* charitable distributions of up to $53,000 (2024) to a charitable gift annuity or charitable remainder trust allowed?	Yes	Yes	Yes

[1] All taxable amounts are subject to penalty tax of 10% if received prior to age 59½, unless an exception applies.

[2] Generally, a "qualified" distribution is one made at least five years after a contribution is first made to a Roth IRA and because the owner reaches age 59½, dies, becomes disabled, or uses the funds to pay for first-time homebuyer expenses.

[3] Under current law, the age to begin RMDs increases after 2022 to: (1) age 73 for those born from 1951 to 1958; and (2) to age 75 for those born after 1958. Previously, age 72 was the mandated age to begin RMDs.

Comparison of Returns from Various Types of IRAs

The table below is a hypothetical illustration of the impact of time and income taxes on the various types of IRAs.[1] The calculations assume that any tax savings from deductible contributions are invested in a separate, annually-taxable fund and that all funds are withdrawn in a lump sum at retirement.

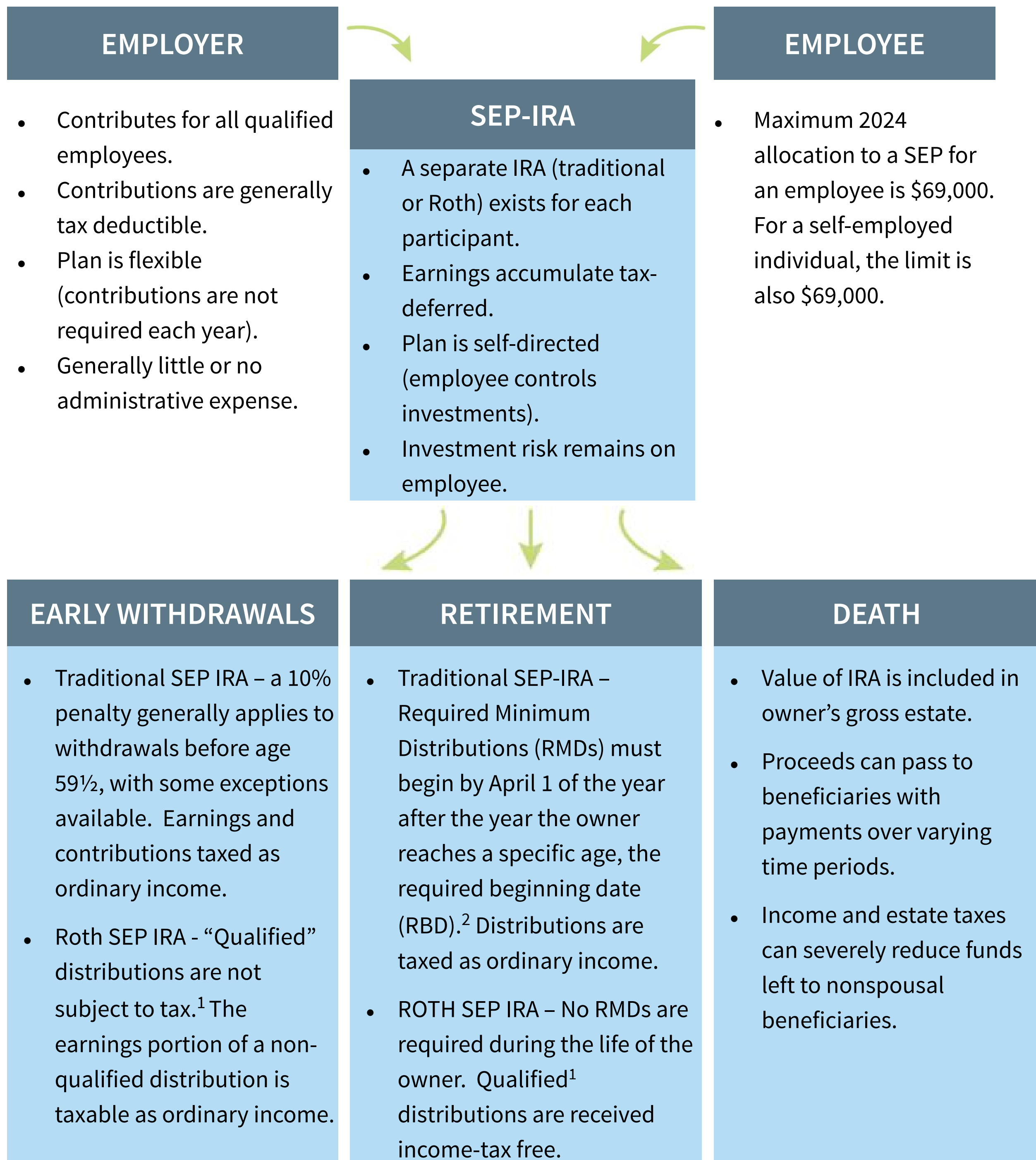
Assumptions:

Desired net annual contribution: $7,000
Marginal income tax bracket – pre-retirement: 28.00%
Marginal income tax bracket – post-retirement: 25.00%
Tax-deferred growth rate: 7.00%
After-tax growth rate: 5.04%
Number of years until retirement: 20

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
A. Pre-Retirement			
1. Contributions are made	After-tax	Before-tax	After-tax
2. Gross amount	$9,722	$7,000	$9,722
3. Income taxes payable	2,722	0	2,722
4. Net annual contribution to IRA	7,000	7,000	7,000
5. Annual tax savings to taxable account	0	1,960	0
Total net annual savings	**$7,000**	**$8,960**	**$7,000**
B. At Retirement			
1. Net accumulation in the IRA[2]	$307,056	$307,056	$307,056
2. Future value of tax savings	0	68,364	0
3. Total available before taxes	307,056	375,420	307,056
4. Income taxes payable	-41,764	-76,764	0
Net after income taxes	**$265,292**	**$298,656**	**$307,056**

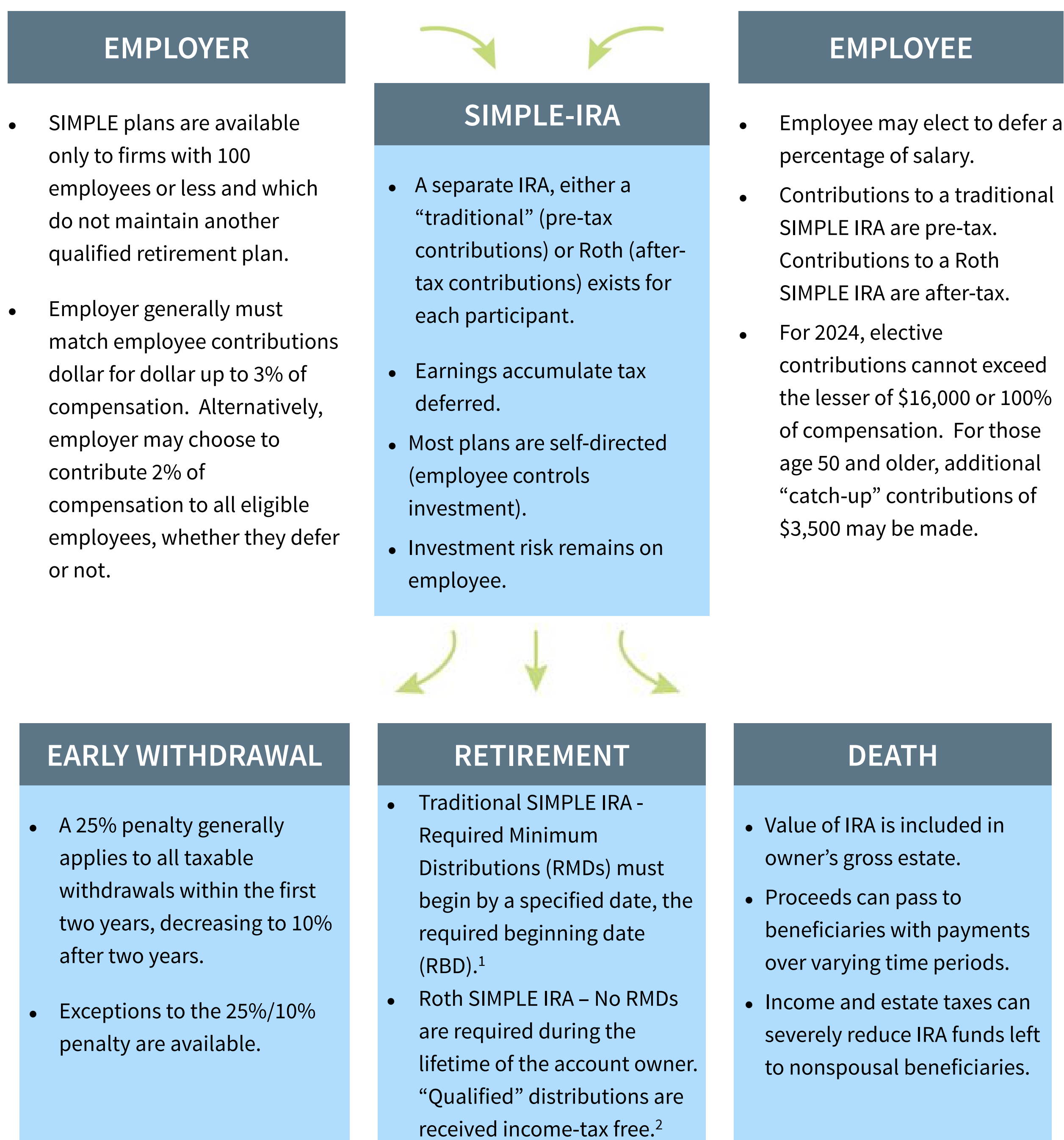
[1] Based on federal law. State or local law may differ.
[2] Assumes annual contributions are made at the beginning of each year.

How a SEP-IRA Works



[1] Generally, a "qualified" distribution is one made at least five years after a contribution is first made to a Roth IRA and because the owner reaches age 59½, dies, becomes disabled, or uses the funds for first-time homebuyer expenses.

[2] Under current law, the RBD increases after 2022: (1) to age 73 for those born from 1951 to 1958; and (2) to age 75 for those born after 1958. Previously, age 72 was the mandated age to begin RMDS.



[1] Under current law, the RBD increases: (1) to age 73 for those born from 1951 to 1958 and (2) to age 75 for those born after 1958. For non-owner employees, RMDs must begin by April 1 of the year after the *later* of (a) the year they reach the RBD; or (b) the year the employee retires. For more-than 5% owners, RMDs *must begin* by April 1 of the year after the year they reach the RBD. Previously, age 72 was the mandated age to begin RMDs.

[2] A "qualified" distribution is one made after a five-year waiting period and because the owner either (1) reaches age 59½; (2) dies; (3) becomes disabled, or(4) uses the funds for first -time homebuyer expenses.

CHAPTER 3

DISTRIBUTION OF RETIREMENT PLANS

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Understanding Required Minimum Distributions: Uniform Lifetime Tables

Required Minimum Distributions (RMDs) are withdrawals that must be made from certain retirement accounts once an individual reaches a specific age. The Uniform Lifetime Table helps provide guidance on the appropriate withdrawal amount based on your age. Understanding the RMD guidelines and the table below can help plan retirement withdrawals more effectively and ensure you stay on track with any requirements.

Age	Period
70	27.4
71	26.5
72	25.6
73	24.7
74	23.8
75	22.9
76	22
77	21.2
78	20.3
79	19.5
80	18.7
81	17.9
82	17.1
83	16.3
84	15.5
85	14.8
86	14.1
87	13.4
88	12.7

Age	Period
89	12
90	11.4
91	10.8
92	10.2
93	9.6
94	9.1
95	8.6
96	8.1
97	7.6
98	7.1
99	6.7
100	6.3
101	5.9
102	5.5
103	5.2
104	4.9
105	4.5
106	4.2
107	3.9

Retirement Buckets: Understanding Your Income Sources

Retirement income can come from various "buckets" like Social Security, pensions, personal savings, and investments. Diversifying these sources helps ensure a stable financial future.

CHAPTER 4

LIFE, DISABILITY AND LONG-TERM CARE

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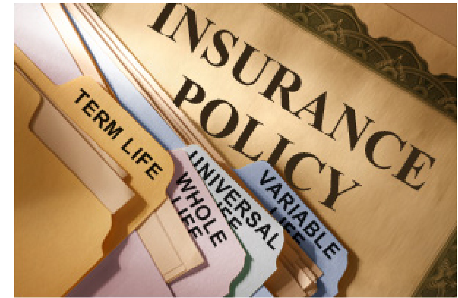
Types of Life Insurance Policies

In choosing the type of life insurance policy you purchase, consideration must be given to the need which is being filled, e.g., creation of an estate, payment of estate settlement costs (federal and state death taxes, last illness and burial costs, probate fees, etc.), business buy-out, key-man coverage, etc.



Decreasing Term

Level premium, decreasing coverage, no cash value: Used for financial obligations which reduce with time, e.g., mortgages or other amortized loans.

Annual Renewable Term

Increasing premium, level coverage, no cash value: Used for financial obligations which remain constant for a short or intermediate period, e.g., income during a minor's dependency.

Long-Term Level Premium Term

Level premium, level coverage, no cash value: The annual premiums are fixed for a period of time, typically 5, 10, 15 or 20 years. Used for financial obligations which remain constant for a short or intermediate period, e.g., income during a minor's dependency.

Whole Life

Level premium, level coverage, cash values: Cash value typically increases based on insurance company's general asset account portfolio performance. Used for long-term obligations, e.g., surviving spouse lifetime income needs, estate liquidity, death taxes, funding retirement needs, etc.

Single Premium Whole Life

Entire premium is paid at purchase, cash values, level coverage: Provides protection as well as serving as an asset accumulation vehicle.

Universal Life

Level or adjustable premium and coverage, cash values: Cash values may increase, based on the performance of certain assets held in the company's general account. Used for long-term obligations or sinking-fund needs: estate growth, estate liquidity, death taxes, funding retirement needs, etc.

Indexed Universal Life

Level or adjustable premium and coverage, cash values: Cash values may increase, based on the performance of an underlying stock or bond "index." The death benefit may increase or decrease (but not below a guaranteed minimum) depending on investment performance. Used for long-term obligations or sinking fund needs, estate growth, estate liquidity, paying death taxes, funding retirement needs, etc.

Variable Life and Variable Universal Life

Level or adjustable premium, level coverage, cash values: Used for long-term obligations, by those individuals who are more active investors, for estate growth, and death tax liquidity. The death benefit may increase or decrease depending on investment performance. The policy owner directs cash values to a choice of investment accounts (bond, stock, money market, etc.). However, cash values are not guaranteed.

Note: Withdrawals and loans may be available from permanent policies. Withdrawals and policy loans may reduce the death benefit and will reduce the cash value of the policy. There are different income tax consequences if they are modified endowment contracts.

Term Life Insurance Comparison:

A Detailed Look for a 45-Year-Old Male with $500,000 Coverage

Year	Annual Renewable Term
1	$254
2	$301
3	$342
4	$384
5	$435
6	$492
7	$565
8	$638
9	$710
10	$783
11	$8,616
12	$9,611
13	$10,684
14	$11,602
15	$12,659
16	$13,935
17	$15,490
18	$17,387
19	$19,518
20	$21,757
21	$24,121
22	$26,516
23	$28,942
24	$31,555
25	$34,261
26	$37, 542
27	$41,213
28	$46,034
29	$51,119
30	$56,469
Total Payout: $523,935	

Year	30 Year Level Term
1	$1,275
2	$1,275
3	$1,275
4	$1,275
5	$1,275
6	$1,275
7	$1,275
8	$1,275
9	$1,275
10	$1,275
11	$1,275
12	$1,275
13	$1,275
14	$1,275
15	$1,275
16	$1,275
17	$1,275
18	$1,275
19	$1,275
20	$1,275
21	$1,275
22	$1,275
23	$1,275
24	$1,275
25	$1,275
26	$1,275
27	$1,275
28	$1,275
29	$1,275
30	$1,275
Total Payout: $38,250	

The Individual Need for Disability Insurance

Many people believe that their biggest asset is their home. For most of us, our biggest asset is the ability to work and earn an income. Not being able to work – due to a job loss or a disability having taken away the ability to work – is often financially devastating.

Everyone who works for a living is familiar with what can happen if they lose their job. On the other hand, the possibility of a serious disability is a risk few seem to consider. How likely is it that you will become seriously disabled? According to one study, 30% of all Americans between the ages of 35 and 65 suffered a disability lasting at least 90 days.[1] The risk is real. The question is, “What to do about it?”

Don’t Count on Social Security

A few individuals do manage to qualify for disability benefits from Social Security. However, the Social Security definition of “disability” is so strict that, in 2022, only 34.6% of initial worker claims for Social Security disability benefits were accepted.[2] Obviously, something else beyond Social Security is needed.

Group Disability Insurance

Many employers will provide – or make available – disability insurance on a group basis. However, even those who are covered by a group policy can still be at substantial risk. Employer-sponsored disability policies seldom replace more than 60% of your monthly salary. Further, many policies have a monthly maximum benefit that may be far less than what some people earn. Income taxes can also be an issue; if the *employer* is paying the full cost of the coverage, and not including it in the employee’s income, disability benefits are fully taxable. If an *employee* pays for disability insurance with after-tax dollars, the benefits are received free of income tax.[3]

[1] Based upon the 1985 Commissioners’ Individual Disability Table.

[2] Annual Statistical Report on the Social Security Disability Insurance Program, 2022, October 2023. Table 61, Medical Decisions at the initial adjudicative level, by year of application and program, all decisions; workers in 2020.

[3] The discussion here concerns federal income tax law only. State or local law may vary.

Individual Disability Income Insurance

If group coverage is not available, the solution may be individual disability income insurance. Although individual policies can cost more, as long as you pay the premiums with after-tax dollars, the benefits are not taxable. Plus, an individual policy allows you to tailor its terms to fit your own needs. When shopping for an individual disability policy, consider the following:

- **Company strength:** You need to know if the company is financially sound.
- **Definition of disability:** Look for a policy that defines disability in the broadest terms possible. Some policies will permit you to work in a different occupation and still collect disability benefits.
- **Elimination period:** How long must you wait before disability payments begin?
- **Benefit period:** How long will you need coverage? Both short-term and long-term disability benefits are available.
- **Inflation protection:** Try to find a policy that adjusts benefits for inflation.

Long-Term Care

Long-term care (LTC) is the term used to describe a variety of services in the area of health, personal care, and social needs of persons who are chronically disabled, ill or infirm. Depending on the needs of the individual, long-term care may include services such as nursing home care, assisted living, home health care, or adult day care.

Who Needs Long-Term Care?

The need for long-term care is generally defined by an individual's inability to perform the normal activities of daily living (ADL) such as bathing, dressing, eating, toileting, continence, and moving around. Conditions such as AIDS, spinal cord or head injuries, stroke, mental illness, Alzheimer's disease or other forms of dementia, or physical weakness and frailty due to advancing age can all result in the need for long-term care.

While the need for long-term care can occur at any age, older individuals are the typical recipients of such care.

Individuals with Disabilities, by Age[1]

Age Range	No Disability	With a Disability
5-17 Years	94%	6%
18-34 Years	92%	8%
35-64 Years	87%	13%
65-74 Years	76%	24%
75 Years and over	54%	46%

What Is The Cost of Long-Term Care?

Apart from the unpaid services of family and friends, long-term care is expensive. The table on the following page lists national average costs (regional costs can vary widely) for typical long-term care services. One federal study estimated that on average men will need 2.5 years of long-term support services, while women will need 3.6 years of such care.[2]

[1] Source: U.S. Census Bureau, 2022 American Community Survey 1-Year Estimates, Sex by Age by Disability Status for the Civilian noninstitutionalized population, male and female, Table B18101.

[2] See "Long-Term Services and Supports for Older Americans: Risks and Financing, 2022," Table 1. U.S Department of Health and Human Services, Office of Behavioral Health, Disability, and Aging Policy. August 2022.

Service	2021[1]
Assisted living facility (Private Room)	$4,500 per month ($54,000 per year)
Nursing home (Private room)	$297 per day ($108,405 per year)
Nursing home (Semi-private room)	$260 per day ($94,900 per year)
Home health aide	$27 per hour
Homemaker/companion	$26 per hour

Paying for Long-Term Care – Personal Resources

Much long-term care is paid for from personal resources:

- Out-of-Pocket: Expenses paid from personal savings and investments.
- Reverse Mortgage: Certain homeowners may qualify for a reverse mortgage, allowing them to tap the equity in the home while retaining ownership.
- Accelerated Death Benefits: Certain life insurance policies provide for "accelerated death benefits" (also known as a living benefit) if the insured becomes terminally or chronically ill.
- Private Health Insurance: Some private health insurance policies cover a limited period of at-home or nursing home care, usually related to a covered illness or injury.
- Long-Term Care Insurance: Private insurance designed to pay for long-term care services, at home or in an institution, either skilled or unskilled. Benefits will vary from policy to policy.

Paying for Long-Term Care – Government Resources

Long-term care that is paid for by government comes from two primary sources:

- Medicare: Medicare is a health insurance program operated by the federal government. Benefits are available to qualifying individuals age 65 and older, certain disabled individuals under age 65, and those suffering from end-stage renal disease. A limited amount of nursing home care is available under Medicare Part A, Hospital

[1] Source: Genworth 2021 Cost of Care Survey. Downloaded October 25, 2022.

Insurance. An unlimited amount of home health care is also available, if made under a physician's treatment plan.

- Medicaid: Medicaid is a welfare program funded by both federal and state governments, designed to provide health care for the truly impoverished. Eligibility for benefits under Medicaid is typically based on an individual's income and assets; eligibility rules vary by state.

In the past, some individuals have attempted to artificially qualify themselves for Medicaid by gifting or otherwise disposing of assets for less than fair market value. Sometimes known as "Medicaid spend-down", this strategy has been the subject of legislation such as the Omnibus Budget Reconciliation Act of 1993 (OBRA '93). Among other restrictions, OBRA '93 provided that gifts of assets within 36 months (60 months for certain trusts) before applying for Medicaid could delay benefit eligibility.

The Deficit Reduction Act of 2005 (DRA) further tightened the requirements to qualify for Medicaid by extending the "look-back" period for all gifts from 36 to 60 months. Under this law, the beginning of the ineligibility (or penalty) period was generally changed to the later of: (1) the date of the gift; or, (2) the date the individual would otherwise have qualified to receive Medicaid benefits. This legislation also clarified certain "spousal impoverishment" rules, while making it more difficult to use certain types of annuities as a means of transferring assets for less than fair market value.

Choosing a Long-Term Care Policy

Assessing the need for long-term care (LTC) insurance is an important part of any risk management program. The heavy economic burden of paying for such care should be measured against your available resources. If you need LTC for even a short period of time, what effect will that have on your estate and any legacy you may wish to leave to your heirs? The decision to purchase LTC insurance, either individually or under a group plan, generally must be made while you are still healthy. Once a disabling condition occurs, it is too late to act.

Common Elements in Long-Term Care Insurance Policies

- **"Qualified" LTC policies:** If a LTC policy meets certain criteria established by the federal government, the premiums for the policy are considered "medical care" and thus qualify for the medical expense itemized deduction. Federal law limits the amount of qualified LTC premiums that may be deducted each year.[1]

- **Amount of the benefit:** A policy will generally specify the maximum dollar benefit payable. A survey of local nursing homes can help determine the amount needed.

- **How benefits are paid:** LTC benefits are generally paid under one of three methods:

  - Reimbursement (expenses-incurred) method – pays the lesser of the actual expenses incurred or the dollar limit specified in the policy.

  - Indemnity (or "per-diem") method – the entire daily benefit is paid as long as the insured requires and is receiving LTC services, regardless of the amount spent.

  - Disability method – once the eligibility criteria have been met, the full daily benefit is paid, even if no LTC services are being provided.

- **Inflation protection:** Since costs inevitably increase, a policy without a provision for inflation may be outdated in a few years. Of course, an additional charge is incurred for this protection.

[1] The discussion here concerns federal income tax law; state or local income tax law may vary.

- **Guaranteed renewability:** Almost all long-term care policies sold today are guaranteed renewable; they cannot be canceled as long as you pay the premiums on time and as long as you have told the truth about your health on the application. The fact that a policy is guaranteed renewable does not mean that the premiums cannot be increased; insurers typically reserve the right to raise premiums for an entire class or group of policyholders. Some policies sold in the past were not guaranteed renewable and a few of these policies may still be in force.
- **Waiver of premium:** Some policies will waive future premiums after you have been in the nursing home for a specified number of days, e.g., 90 days.
- **Prior hospitalization:** This policy provision requires one to be hospitalized (for the same condition) prior to entering the nursing home or no benefits will be paid under the policy. Although prior hospitalization clauses have been prohibited in all states, some older policies still in force may contain this provision. Policies currently sold do not contain prior hospitalization clauses.
- **Place of care:** Does the policy require that the nursing home be licensed or otherwise certified by the state to provide skilled or intermediate nursing care? Must the facility meet certain record keeping requirements?
- **Plan of care:** A plan of care is part of the health care claims process. It is the result of an assessment prepared by the insured's physician, and a multi-disciplinary team, including practical nurses, social workers, and other health care professionals. The plan outlines the appropriate level of care needed to assist the insured in performing the activities of daily living.
- **Level of care:** There are three generally recognized levels of care in an institutional setting:
  - **Skilled care:** Daily nursing and rehabilitation care under the supervision of skilled medical personnel, e.g., registered nurses and based on a physician's orders.
  - **Intermediate care:** The same as skilled care, except it requires only intermittent or occasional nursing and rehabilitative care.

  - **Custodial care:** Help in one's daily activities including eating, getting up, bathing, dressing, use of toilet, etc. Persons performing the assistance do not need to be medically skilled, but the care is usually based upon the physician's certification that the care is needed.

- **Pre-existing conditions:** Depending on the state, a policy may limit coverage of pre-existing conditions to discourage persons who are already ill from purchasing a policy. Many policies will provide benefits if the pre-existing condition was overcome six months or more prior to applying for the policy. Also, some policies will not pay benefits if the pre-existing condition re-occurs within six months after the effective date of coverage.

- **Deductible or waiting period:** Most LTC policies require you to "pay your own way" for a specified number of days (generally ranging between zero and 120 days) before the insurance company will begin to pay benefits. Of course, the shorter the waiting period, the higher the cost will be. This is usually referred to as an "elimination period."

- **Alzheimer's disease:** Most policies now include coverage for organic brain disorders like Alzheimer's disease.

- **Home health care (home care):** Many long-term care policies can provide coverage in the insured's home. It is most often offered as a rider (requiring an additional premium) to nursing facility coverage, and reimburses the cost of long-term care received at home.

- **Rating the company:** Companies should be financially sound and have a reputation of treating policyholders fairly.

Seek Professional Guidance

A perfect LTC policy does not exist. Many policy features must be compared and weighed. As a general rule, the more benefits included in a policy, the higher the premium will be. Professional guidance is extremely important in this complicated area.

An Overview of Social Security Benefits

What Is Social Security?

Social Security is a system of social insurance benefits available to all covered workers in the United States. Begun in 1937, the Social Security system covers a wide range of social programs. The term "Social Security," as it is commonly used, refers to the benefits provided under one part of the system, known by its acronym, OASDI, or Old-Age, Survivors, and Disability Insurance.

OASDI benefits are funded primarily by payroll taxes paid by covered employees, employers, and self-employed individuals. Both the OASDI portion of the payroll tax, as well as that part of the tax that goes to finance hospital insurance, HI (Medicare), are provided for under the Federal Insurance Contributions Act, FICA.

Insured Status

To qualify for benefits, a worker must be either "fully" insured or "currently" insured. An insured status is acquired by earning "credits", based on the wages or self-employment income earned during a year. In 2022, an individual must earn $1,510 in covered earnings to receive one credit and $6,040 to earn the maximum of four credits for the year.

A worker generally becomes fully insured by earning 40 credits, typically by working 10 years in covered employment.[1] To be considered currently insured, a worker must have at least six credits in the last 13 calendar quarters, ending with the quarter in which he or she became entitled to benefits.

All benefits are available if a worker is fully insured. Some benefits are not available if the worker is only currently insured. Special requirements apply to disability benefits.

What Benefits Are Available?

- **Worker's benefit:** This is a monthly income for a retired or disabled worker.
- **Spouse's benefit:** Refers to monthly income for the spouse or former spouse of a retired or disabled worker.

[1] For those working less than 10 years, an alternative test to determine fully-insured status may apply.

- **Widow(er)'s benefit:** Refers to monthly retirement income for the surviving spouse or former spouse of a deceased worker.
- **Child's benefit:** A monthly income for the dependent child of a deceased, disabled, or retired worker. To qualify, a child must be under age 18, or 18 or 19 and a full-time elementary or high school student, or 18 or over and disabled before 22.
- **Mother's or father's benefit:** Monthly income paid to a surviving spouse who is caring for a worker's dependent child who is under age 16 or disabled before age 22. If under age 62, the spouse of a retired worker receives the same benefit.
- **Parent's benefit:** Monthly income paid to the surviving dependent parent or dependent parents of a deceased worker.

On What Is the Amount of a Social Security Benefit Based?

In general, a covered worker's benefits, and those of his or her family members, are based on the worker's earnings record. The earnings taken into account are only those reported to the Social Security Administration (SSA), up to a certain annual maximum known as the "wage base." The wage base is indexed for inflation each year and effectively places a cap on the amount of Social Security benefits a worker can receive, regardless of earnings. The wage base for 2022 is $147,000.[1]

Using a worker's earnings record, the SSA calculates a number known as the Primary Insurance Amount, or PIA. The PIA is the basic value used to determine the dollar amount of benefits available to a worker and his or her family.

What Is the Benefit Amount?

The table below summarizes the benefit amounts generally payable under OASDI in the event of a worker's death, disability, or retirement. All monthly benefit amounts are subject to reduction to meet a "family maximum" limit. Individual benefits may also be reduced if the recipient has earned income in excess of specified limits.

[1] The wage base for 2021 was $142,800.

An Overview of Social Security Benefits

	Death[1]	Disability[2]	Retirement[3]
Worker's benefit		100% of PIA	100% of PIA
Spouse's benefit	N/A	50% of PIA	50% of PIA
Widow(er)'s benefit	100% of PIA	N/A	N/A
Child's benefit	75% of PIA	50% of PIA	50% of PIA
Mother's or father's benefit	75% of PIA	50% of PIA	50% of PIA
Parent's benefit	82.5% of PIA[4]	N/A	N/A

Workers age 60 or older and who are not receiving Social Security benefits automatically receive a paper Social Security Statement each year, listing the worker's earnings as well as providing estimated retirement, disability, and survivors benefits.

Earnings information may also be verified by calling the SSA directly at (800) 772-1213; TTY (800) 325-0778, Monday through Friday, 7:00AM to 7:00PM. On the internet, the SSA can be found at https://www.ssa.gov/.

[1] Reduced widow(er)'s benefits are available at age 60.

[2] Disability benefits are subject to a very strict definition of disability. At full retirement age (FRA), disability benefits cease and retirement benefits begin.

[3] Unreduced benefits are available at FRA. For those born before 1938, FRA is age 65. For individuals born after 1937, FRA gradually increases from age 65 to age 67. For example, for baby boomers born between 1943 -1954, FRA is age 66. A larger retirement benefit is available to those who continue to work past FRA.

[4] If one parent qualifies, the benefit is 82.5% of the PIA. If both parents qualify, the benefit is 75% of the PIA to each.

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CHAPTER 5

ESTATE PLANNING

SOUTHERN PRACTICE
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The Need for Estate Planning

At a person's demise there are certain typical problems which, if not planned for, create a burden on those who are left behind.

Proper estate planning can eliminate or reduce these problems.

Financial Burdens

- Estate settlement costs are too high: These costs consist primarily of probate fees and death taxes.
  - Probate fees: These are generally paid to the executor of the estate and the attorney who assists with the probate.
  - Death taxes: Estates that exceed certain amounts may be subject to both state and federal death taxes.
- Estate assets are improperly arranged:
  - Liquidity: There are not enough liquid (cash type) assets to pay estate settlement costs.
  - Cash flow: There is not enough income to care for loved ones left behind, e.g., spouse and minor children.

Transfer of Assets

- Estate assets may be subject to probate delays and expense.
- Assets transferred to minors may be in cumbersome guardianship accounts until they attain age 18 (or 21 in some states) and are then distributed outright to the children. A court supervised guardianship may be required.
- Additional death taxes may be paid because there was no pre-death planning.
- Without planning, estate assets may not pass to the intended heirs.

Care of Minors

- Guardians: Parents can nominate a guardian for their minor children in a will.
- Asset management: If the wrong persons are chosen to manage the assets left for the minors, the assets may be lost or unnecessarily reduced.

Items to Discuss Before Meeting with an Attorney

There are several topics that should be considered prior to meeting with the attorney who will draft a will or a trust.

Guardians for Minor Children

Who is best able to cope with the raising of your minor children? A brother, sister, or a close friend may be a better choice than a grandparent.

Factors to consider would include the ages of the proposed guardians and their children, the ages of your children and the number of them who are still minors, and the health and financial situation of all parties. Decide on alternative choices, in the event your first choice is unwilling or unable to serve. If you name a couple as guardians and one of them dies, would you want the surviving co-guardian to act as sole guardian? What if they divorce?

Executor of the Estate

If all or part of your estate passes through probate, whom do you want to handle the details of paying your debts and death taxes and distributing the remaining assets to the beneficiaries named in your will?

Living Trust

Is it important to you to avoid probate? Make a list of your assets and their approximate values, along with a list of mortgages or other debt on any property. Your attorney can give you an estimate of what it will cost your heirs to pass your estate through probate.

The living trust is frequently used to avoid or reduce probate expenses. Ask your attorney to explain the advantages and disadvantages of this type of trust.

Trustee

If you have a trust, either in your will or a separate living trust, you will need to name a trustee to manage investments, pay taxes, make distributions, etc. In the event he or she dies, you will want to provide for one or more successor trustees.

Items to Discuss Before Meeting with an Attorney

A Corporate or Individual Fiduciary

Executors and trustees are referred to as "fiduciaries" because of the higher standard of care which is required of them in managing the assets of another person. Consider the facts of your own estate relative to the list of advantages shown below.

- **Advantages of a corporate fiduciary:**
    - Don't die or become disabled – permanence.
    - Financially accountable for their mistakes.
    - Impartial as to the children. This may prevent the children from becoming bitter towards an individual trustee who happens to be a friend or relative and who doesn't make distributions every time the children ask for something.
    - Have investment expertise, tax and accounting abilities, and computer capabilities. Studies show that they save many dollars in the average estate.
    - Refuse loans to hard-up friends of the trustee.
    - Keep current with the constant changes in the law.
- **Advantages of an individual fiduciary:**
    - A relative or friend may not charge a fee.
    - A relative or friend may have a more personal interest.
    - An individual may have special expertise (i.e., running the family business).

Suggestion: Some people prefer the use of an individual and a corporate trustee, as co-trustees, to obtain the advantages of each.

Distributions to Children

If you do not want your assets distributed outright to your children in the event of your demise, they should probably be held in a trust. The trustee will take care of their needs as instructed in the trust. However, at some future time you will probably want to distribute the assets to them.

Items to Discuss Before Meeting with an Attorney

Many people like to distribute a portion of the estate at several different times, e.g., 1/3 at age 21, 1/3 at age 25 and 1/3 at age 30; or l/2 at age 30 and l/2 at age 35, etc. Your preference: ___ at age ___; ___ at age ___; ___ at age ___.

Final Heirs

In the event your children pass away prior to inheriting your estate, to whom would you want your estate to pass? For example, one could pass ½ to each spouse's side of the family (e.g., parents, brothers, sisters, etc.).

Healthcare Decisions

Who makes healthcare decisions if you are unable to do so? Consider alternative choices if your first choice is unwilling or unable to serve.

Charitable Bequests

Would you be interested in making a charitable bequest, especially if it reduced your income and death taxes?

Other Questions

Would you want your children to remain in the present house?

Is it important to reduce your death tax obligation?

Is it important that your assets pass to your heirs without the expense and delay of probate?

10 OF THE MOST COMMON & COSTLY MISTAKES IN ESTATE PLANNING

1. Not Updating or Revising Your Will

Georgia law automatically revokes a will upon the occurrence of certain events, such as marriage, divorce or birth or adoption of a child. A will is not valid if it is drafted in one state and you move to another state. When a person writes a new will, it revokes the old one entirely, and the old will is replaced with the new one. When there are changes in your family's financial picture, your will should be updated.

2. Failing to Consider the Impact of Estate Taxes

The Bad News:
If a person dies owning assets in excess of $5,430,000, their estate (i.e., spouse and children) pays an estate tax rate of 40%. This tax must be paid within nine months of death, and must be paid before your spouse, children, or any beneficiary receives a penny.

The Good News:
There are ways to reduce or even eliminate this estate tax. Two of these steps can be taken in your will, allowing you to retain control over your assets, while providing for your spouse and children at your death.

3. Leaving Everything to Your Spouse

By not using various provisions in a will, a husband and wife could lose the ability to transfer $2 million to their children and not pay any taxes.

4. Having all or Most of Your Assets Jointly Owned

With everything jointly owned, income, capital gains and estate tax problems are created. In fact, it can create a double estate tax problem. Besides the adverse tax consequences, there are also non-tax consequences of owning property jointly, such as making will provisions ineffective, loss of control of property, and loss of ability to manage assets for use of one or both of the joint holders in the event of sickness or incapacity.

5. Improper Beneficiary Designations

Assets such as life insurance, retirement plans, IRSs, etc. require specific beneficiary designations. Improper designations of beneficiaries or failing to change those beneficiaries when significant events happen in your life, can create a situation where the asset is left to the wrong person or the right person at the wrong time, or the right person at the right time but in the wrong amount.

6. Not Having Enough Cash (liquidity) in the Estate

Not having enough liquidity in the estate means that assets must be sold to pay debts, taxes and expenses of administration. Do you want your family or the IRS and other creditors to receive your estate?

7. Improper Use of Life Insurance

Life insurance is the perfect solution to the cash (liquidity) needs of the estate. If the life insurance is not used properly, it can create additional tax problems, allowing it to be included in the estate for purposes of calculating estate taxes.

8. Choosing the Wrong Person to Administer Your Estate

Naming the wrong person to administer your estate (the Executor) and manage the assets you have placed in trust (the Trustee) can be disastrous and costly for your estate as well as for the individual. Selecting who is going to distribute your assets is just as important as choosing who will receive them.

9. Having A Will as the Only Part of Your Estate Plan

A will controls the disposition of your assets at your death. What happens if you become unable to take care of yourself and your assets before you die? Unless you take the proper steps; if you become sick or incapacitated, it will be a difficult, costly and very burdensome process for your family to be able to use your assets for your benefit or to make decisions concerning your medical or personal care.

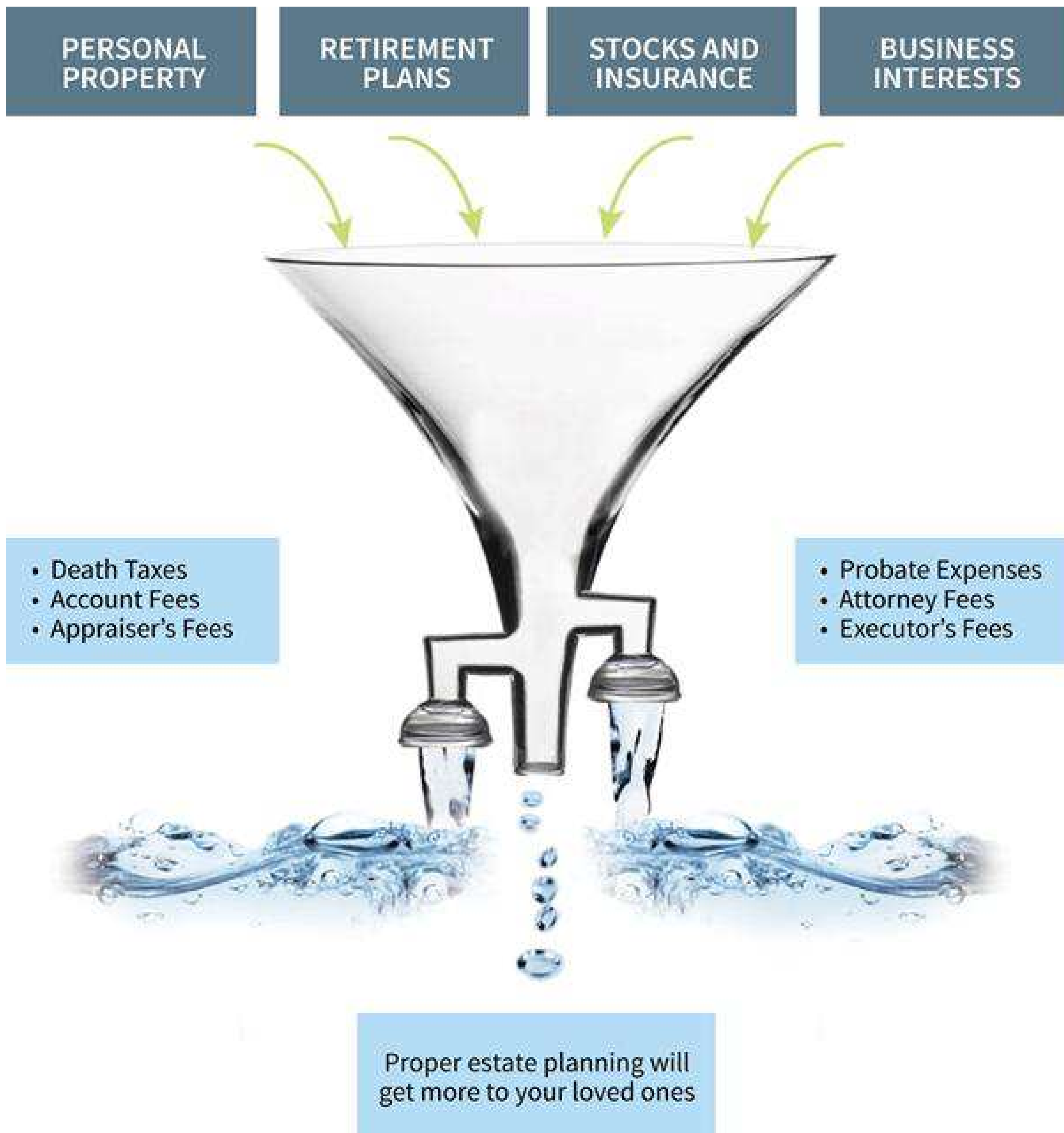
10. Establishing an Estate Plan Based on Cost Alone

The time to discover that you got what you paid for is not after you have died or become unable to take care of yourself, leaving your family to pick up the pieces. Choose a professional who has the experience and knowledge to establish an estate plan specifically designed to grow and change with you and your family.

Estate Settlement Costs Funnel

What Happens to Your Estate at Death?

At a person's demise, his or her assets are subject to a number of expenses that can significantly reduce the size of the estate left for the heirs. Proper estate planning can minimize these expenses and determine in advance how the costs that remain will be paid.



Types of Wills and Trusts

There are many varieties of wills and trusts to fit the needs of each individual. Only a qualified attorney should draft these documents.

A few of the more common documents are listed below.

- **Basic will:** A basic or simple will generally gives everything outright to a surviving spouse, children or other heirs.
- **Will with contingent trust:** Frequently, married couples with minor children will pass everything to their spouse, if living, and if not, to a trust for their minor children until they become more mature.
- **Pour-over will:** The so-called "pour-over" will is generally used in conjunction with a living trust. It picks up any assets that were not transferred to the trust during the person's lifetime and pours them into the trust upon death. The assets may be subject to probate administration, however.
- **Tax-saving will:** A will may be used to create a testamentary bypass trust. This trust provides lifetime benefits to the surviving spouse, without having those trust assets included in the survivor's estate at his or her subsequent death.
- **Living trust without tax planning:** Generally, the surviving spouse has full control of the principal and income of this type of trust. Its main purpose is to avoid probate. If required, the trust can also be used to manage the assets for beneficiaries who are not yet ready to inherit the assets outright, because they lack experience in financial and investment matters.
- **Bypass trust:** This type of trust allows the first spouse to die of a married couple to set aside up to $13,610,000[1] in assets for specific heirs while providing income and flexibility to the surviving spouse. The appreciation on assets in the trust can avoid estate tax.

[1] The applicable exclusion amount is the dollar value of assets protected from federal estate tax by an individual's applicable credit amount. For 2024, the applicable exclusion amount is $13,610,000. In 2023, the applicable exclusion amount was $12,920,000.

- **QTIP trust:** A type of trust known as a QTIP trust allows the first spouse to die to specify who will receive his or her assets after the surviving spouse dies. Use of a QTIP also permits the deferral of death taxes on the assets until the death of the surviving spouse.

  QTIP means "qualified terminable interest property." The income earned on assets in a QTIP trust must be given to the surviving spouse for his or her lifetime. After the death of the surviving spouse, however, the assets then pass to beneficiaries chosen by the first spouse to die, frequently children of a prior marriage.

  Even if there are no children of a prior marriage, some estate owners use this type of trust to prevent a subsequent spouse of the survivor from diverting or wasting estate assets. A QTIP trust can only hold certain qualifying property. For this reason, it is often used in tandem with a bypass trust.

- **Qualified domestic trust:** Transfers at death to a noncitizen spouse will not qualify for the marital deduction unless the assets pass to a qualified domestic trust (QDOT). The QDOT rules require a U.S. Trustee (unless waived by the IRS) and other measures that help ensure collection of a death tax at the surviving noncitizen spouse's later demise.

Note: Additional trusts may be used for current income tax savings or to remove life insurance from the taxable estate, but the above-described documents should generally be considered for a person's estate plan.

Federal Estate Tax Tables

Recent Federal Estate Tax Changes

Since 2001 there has been a parade of changes to the federal estate tax. Under the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the federal estate tax underwent a number of scheduled changes during the years 2002-2010. During this period, the top federal estate tax rate decreased, while the dollar amount of assets that could be transferred at death free of estate tax gradually increased. Under EGTRRA, the federal estate tax even completely disappeared for one year, 2010.

The 2010 Tax Relief Act temporarily extended many of the tax provisions of EGTRRA. Under this legislation, in 2012, a top marginal rate of 35% applied to taxable transfers in excess of $500,000, with an "applicable exclusion amount" of $5,120,000. The applicable exclusion amount is the dollar amount of assets protected from estate tax by an individual's "applicable credit amount."

The American Taxpayer Relief Act of 2012 (ATRA 2012), effective in 2013, provided for a top marginal estate tax rate of 40%, on taxable transfers in excess of $1,000,000.

Finally, the Tax Cuts and Jobs Act of 2017, (TCJA), for 2018-2025, doubled the applicable exclusion amount from $5,000,000 under prior law, to $10,000,000. Adjusted for inflation, the applicable exclusion amount for 2024 is $13,610,000, equal to an applicable credit amount of $5,389,800. Both of these values are subject to adjustment for inflation in future years. Under the TCJA, the applicable exclusion amount (and the equivalent applicable credit amount) will return to the $5,000,000 level, adjusted for inflation, in 2026.

Federal Estate Tax Table

The following table applies to the taxable estates of individuals dying in 2024. In simple terms, the "taxable" estate is a decedent's gross estate (everything he or she owned on the date of death) less transfers to a spouse, gifts to charity, and taxes and other allowable estate expenses.

Under current law, this tax rate table is not scheduled to change in future years.

Federal Estate Tax Tables

If Taxable Estate…		Tentative Tax Is…		
Is Over…	But Not Over…	Tax	Plus %	Of Excess Over…
$0	$10,000	$0	18.00%	$0
10,000	20,000	1,800	20.00%	10,000
20,000	40,000	3,800	22.00%	20,000
40,000	60,000	8,200	24.00%	40,000
60,000	80,000	13,000	26.00%	60,000
80,000	100,000	18,200	28.00%	80,000
100,000	150,000	23,800	30.00%	100,000
150,000	250,000	38,800	32.00%	150,000
250,000	500,000	70,800	34.00%	250,000
500,000	750,000	155,800	37.00%	500,000
750,000	1,000,000	248,300	39.00%	750,000
1,000,000	and up	345,800	40.00%	1,000,000

Federal Estate Tax Worksheet

Assumes Death Occurs During 2024

A. Fair market value of real estate and business property $_______

B. Fair market value of investments, stocks, bonds, funds, etc. _______

C. Fair market value of personal and other property _______

D. **Gross estate** (sum of items A, B and C) _______

E. Administration expenses (funeral expenses, etc.) _______

F. Debts of decedent _______

G. Marital deduction (assets to spouse) _______

H. Charitable deduction (bequests to charity) _______

I. State death taxes _______

J. **Total deductions** (sum of items E through I) (_______)

K. **Taxable estate** (item D minus item J) _______

L. Adjusted taxable gifts (gifts made during life) _______

M. Estate tax base amount (sum of items K and L) _______

N. **Gross estate tax** (on item M from table below) _______

O. Applicable credit (maximum of $5,389,800)[1] _______

P. Gift taxes paid on lifetime gifts _______

Q. **Total credits** (sum of items O and P) (_______)

R. **Net federal estate tax** (item N minus item Q) _______

[1] In 2024, the applicable credit may exceed $5,389,800 (up to a maximum of $10,779,600) if there is a "deceased spousal unused exclusion amount" available.

Estate Tax Table

If Estate Tax Base Amount…		Tentative Tax Is…		
Over…	But Less Than…	Tax Due	Plus %	Of Excess Over…
$0	$10,000	$0	18.00%	0
10,000	20,000	1,800	20.00%	10,000
20,000	40,000	3,800	22.00%	20,000
40,000	60,000	8,200	24.00%	40,000
60,000	80,000	13,000	26.00%	60,000
80,000	100,000	18,200	28.00%	80,000
100,000	150,000	23,800	30.00%	100,000
150,000	250,000	38,800	32.00%	150,000
250,000	500,000	70,800	34.00%	250,000
500,000	750,000	155,800	37.00%	500,000
750,000	1,000,000	248,300	39.00%	750,000
1,000,000	and up	345,800	40.00%	1,000,000

Credit Shelter Trust

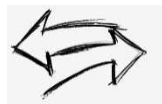
The credit shelter trust is designed to make use of the applicable credit amount of each spouse, while allowing the surviving spouse to have use of the assets of the deceased spouse. The credit shelter trust is generally not taxed at either death. The survivor's trust is generally taxed when the surviving spouse later dies.

Current Estate

First Spouse Dies

Trust A
Survivor's Trust
(all assets not in credit shelter trust)
Remains Revocable[1] – Survivor Gets

- All income
- All principal
- Right to amend
- Unlimited power to appoint principal to anyone



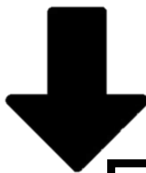
No Tax

Trust B
Credit Shelter Trust
(up to $2,000,000[2])
Becomes Irrevocable – Survivor Can Have

- All income
- Principal for health, support, and maintenance
- Limited power to appoint principal among heirs

Surviving Spouse Dies

Tax on Assets over $2,000,000[2]



No Tax

Children's Trust

- Assets can be held in this trust while the children are growing in maturity
- The trustee manages estate and distributes it to children at specified ages.

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1 Trust may be irrevocable if it is a general power of appointment trust or an estate trust.
2 The applicable exclusion amount is the dollar value of assets protected from federal estate tax by an individual's applicable credit amount. It is scheduled to change as follows: $2,000,000 for 2007-2008; $3,500,000 for 2009, zero federal estate tax for the year 2010; and $1,000,000 for 2011 and thereafter (unless permanently repealed or otherwise modified.)

Presented by: Mike Panter

Estates of Famous People

Estate settlement costs can be very costly and are paid even by the rich and famous. The following examples are from public probate records of individuals who have died.

The following estates made use of the marital deduction:[1]

Name	Gross Estate	Settlement Costs	Net Estate	Percent Shrinkage
Stan Laurel	$91,562	$8,381	$83,181	9%
Goodwin Knight	$102,049	$21,585	$80,464	21%
W.C. Fields	$884,680	$329,793	$554,887	37%
Nelson Eddy	$472,715	$109,990	$362,725	23%
Dixie Crosby	$1,332,571	$78,1953	$550,618	59%
Franklin D. Roosevelt	$1,940,999	$574,867	$1,366,132	30%
Humphrey Bogart	$910,146	$274,234	$635,912	30%
Clark Gable	$2,806,526	$1,101,038	$1,705,488	30%
Dean Witter	$7,451,055	$1,830,717	$5,620,338	25%
Henry J. Kaiser, Sr.	$5,597,772	$2,488,364	$3,109,408	44%
Henry J. Kaiser, Jr.	$55,910,373	$1,030,415	$54,879,958 [2]	2%
Al Jolson	$4,385,143	$1,349,066	$3,036,077	31%
Gary Cooper	$4,984,985	$1,530,454	$3,454,531	31%
Myford Irvine	$13,445,552	$6,012,685	$7,432,867	45%
Walt Disney	$23,004,851	$6,811,943	$16,192,908	30%
Harry M. Warner	$8,946,618	$2,308,444	$6,638,174	26%
William E. Boeing	$22,386,158	$10,589,748	$11,796,410	47%

Estates where the marital deduction was not used or not available:

Name	Gross Estate	Settlement Costs	Net Estate	Percent Shrinkage
William Frawley	$92,446	$45,814	$46,632	49%
“Gabby” Hayes	$111,327	$21,963	$89,364	20%
Hedda Hooper	$472,661	$165,982	$306,679	35%
Marilyn Monroe	$819,176	$448,750	$370,426	55%
Erle Stanley Gardner	$1,795,092	$636,705	$1,158,387	35%
Cecil B. DeMille	$4,043,607	$1,396,064	$2,647,543	35%
Elvis Presley	$10,165,434	$7,374,635	$2,790,799	73%
J.P. Morgan	$17,121,482	$11,893,691	$5,227,791	69%
John D. Rockefeller, Sr.	$26,905,182	$17,124,988	$9,780,194	64%
John D. Rockefeller, Jr.	$160,598,584	$24,965,954	$135,632,630 [2]	16%
Alwin C. Ernst, CPA	$12,642,431	$7,124,112	$5,518,319	56%
Frederick Vanderbilt	$76,838,530	$42,846,112	$33,992,418	56%

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1 Under current laws, the costs would be different. Under the Tax Act of 2001, the federal estate tax is gradually phased out until its final repeal in the year 2010. If congress does not act at the time to repeal it for the years following, it will automatically revert back to the rates in effect during the year 2001, with an exemption for the first $1,000,000 of assets.

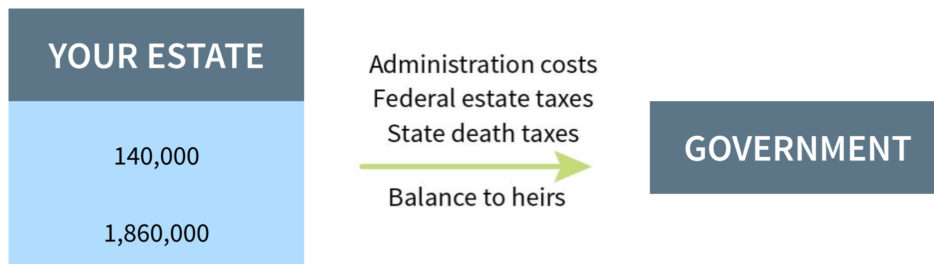
2 Over $50,000,000 of Henry J. Kaiser’s estate went to the Kaiser Family Foundation. Most of the estate of John D. Rockefeller, Jr. went to the Rockefeller Brothers Fund, Inc.

Paying Estate Costs with Estate-Tax-Free Dollars

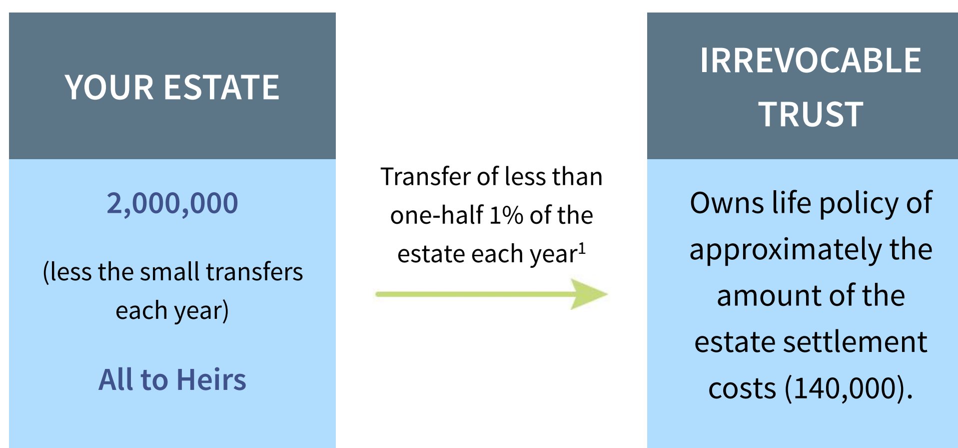
Since estate taxes are imposed upon the value of the assets in one's estate, many people prefer to pay for these taxes by repositioning these assets, rather than trying to solve the problem entirely from their current earnings.

The following method of systematically transferring small amounts of capital from the estate appeals to many estate owners.

Assume an estate of 2,000,000, with death occurring in 2021.



With a little planning, the entire estate may be kept intact.



At death, this 140,000 can be lent to the executor to pay for the estate settlement costs or it can be used to purchase assets from the estate. The income earned by the trust assets can go to the surviving spouse and the remainder can pass to the children after his or her demise, without being taxed in his or her estate.

[1] Assumes approximate cost of a permanent type life insurance policy on a 50-year-old male. Actual amount will vary.

Lifetime Gifts

Lifetime gifts and transfers at death are taxed using a unified tax rate schedule that has cumulatively progressive rates. Each taxable transfer, including the final transfer at death, begins in the tax bracket attained by the prior gift.

Annual Gift Tax Exclusion

Each taxpayer is allowed to transfer/gift a certain amount of assets each year, without concern for gift taxes. This "annual exclusion amount" is currently $18,000[1] per donor and a gift of this amount can be given to each of any number of donees. If husband and wife agree, they can "split" gifts and give twice this amount, $36,000, to each of any number of children, grandchildren, etc.

Marital Deduction

There is an unlimited marital deduction for gifts of separate or community property passing from one spouse to another. Transfers to spouses who are not U.S. citizens are not protected by the gift tax marital deduction, but a non-citizen spouse is entitled to a special, annual gift tax exemption if such a gift would qualify for the marital deduction if the spouse were a U.S. citizen. For 2024, this special exemption amount is $185,000.

Educational or Medical Expenses

A donor may give, free of gift tax consequences, unlimited amounts for a donee's school tuition (not books, supplies, or other expenses) or qualified medical expenses. Such gifts must be made directly to the school or health care provider, and not to the donee.

Deductibility for Income Tax Purposes

Gifts or gift taxes are not deductible for income tax purposes, unless contributed to a qualified charity.

Gift Tax Returns

These returns are filed annually, generally by April 15 of the year following the gift for amounts in excess of the annual gift tax exclusion.

[1] 2024 value. This amount is subject to adjustment for inflation in future years.

Capital Gains and Losses

A donee generally takes over the basis of gifted property from the donor, known as "carry-over" basis. A later sale of gifted property by the donee can result in a capital gain, a capital loss, or a situation in which there is neither a gain nor a loss.

Includability of Gifts in the Estate

Gifts made within three years of death are not considered in the computation of the taxable estate. However, if they exceed the annual gift tax exclusion, they may be added to the taxable estate as adjusted taxable gifts. This, in effect, pushes the assets remaining in the taxable estate into the higher tax brackets; however, the appreciation on the assets from date of gift until date of death is not brought into the computation.

Gifts of life insurance policies, however, are still included if made within three years of death. Certain incomplete transfers (e.g., retained life estates, revocable transfers, etc.) will also be included in the gross estate without regard to when they were made.

All taxable transfers made within three years (except gifts that qualify for the annual gift tax exclusion) will be included for determining whether an estate qualifies for an IRC Sec. 303 stock redemption, the IRC Sec. 2032A special use valuation or the IRC Sec. 6166 deferral of estate tax payment.

Advantages of Making Gifts

- Gifts put future appreciation of assets out of the estate.
- The gift tax paid reduces the taxable estate.
- Making gifts of income-producing assets may reduce current income taxes.
- Probate administration is not necessary for gifted assets.
- The donor can see the beneficiaries enjoy the assets while he or she is still living.

READY TO SECURE YOUR FUTURE?

Planning for retirement as a veterinary practice owner involves complex decisions, but starting now can ensure you meet your financial goals. It's important to remember that a practice without a written transition plan can lose up to 40% of its value if the owner passes away unexpectedly.

At Southern Practice Consulting Group, we've helped over 250 veterinary practices navigate this process successfully. Take the first step today by completing our Interest Form and access to our **Practice Health Assessment®** to see how close you are to reaching your retirement goals.

SOUTHERN PRACTICE
CONSULTING GROUP, LLC

CHAPTER 6
EDUCATION PLANNING

SOUTHERN PRACTICE
CONSULTING GROUP, LLC

Ways to Save for College

In accumulating funds for college, one of the first questions a family will face is, "Where do we invest the money?" Many financial professionals will recommend that money for college be placed in relatively low-risk investments. If there is a long enough time frame, the savings may be placed initially in higher risk (and potentially higher return) investments. As the time for college gets closer, the funds can be shifted into more conservative choices.

The ultimate decision will depend on a range of factors such as the number of years until college begins, the amount of money available to invest, a family's income tax bracket, risk tolerance, and investment experience. A few of the more traditional approaches are:

- **Savings accounts:** Including CDs, money market accounts, and regular savings.
- **Tax-free municipal bonds:** Held either directly or through a mutual fund.
- **U.S. Treasury securities:** Such as treasury bills or treasury bonds.
- **Growth stocks/growth mutual funds:** For the long-term investor.

Tax-Advantaged Strategies

Under federal income tax law (state or local income tax law may differ), there are a number of tax-advantaged strategies available to accumulate funds for college expenses. The rules surrounding these strategies can be complicated and they should only be used after careful review with a tax or other financial professional:

- **IRC Sec. 529 qualified tuition program:** These plans allow an individual to either prepay a student's tuition, or contribute to a savings account to pay the student's "qualified higher education expenses." Contributions are not tax deductible, but growth in an account is tax-deferred. If certain requirements are met, distributions to pay qualified higher expenses are excluded from income. 529 plans involve investment risk, including possible loss of funds, and there is no guarantee a college-funding goal will be met. The fees, expenses, and features of 529 plans vary from state to state.

- **Coverdell education savings account:** Up to $2,000 per year may be contributed to a Coverdell ESA for an individual. Contributions are not tax-deductible, but growth is tax-deferred. Distributions are excluded from income if used for qualifying educational expenses. Other restrictions may apply.
- **Cash value life insurance:** Cash value life insurance can be an attractive, tax-favored means of accumulating college funds. If an insured dies before the student starts school, the policy proceeds can be used to pay college expenses.
- **U.S. savings bonds:** Interest on series EE savings bonds issued after 1989, or Series I savings bonds, may (certain limits apply) be excluded from income if qualifying education expenses are paid in the year the bonds are redeemed. The exclusion also applies to savings bond interest contributed to an IRC Sec. 529 qualified tuition program or a Coverdell ESA.

Who Owns the Funds?

A second issue facing families planning for college is the question of "Who will own the funds?" The answer to this question involves issues of control, income and gift taxes, and can impact a future application for financial aid:

- **Parents:** Either in accounts specifically earmarked for college or as a part of a general family portfolio.
- **Child:** Often a custodial account is used, under either the Uniform Gifts to Minors Act (UGMA) or the Uniform Transfers to Minors Act (UTMA).
- **Trust:** In certain situations, usually involving wealthy families, specialized types of trusts may be used, such as a Crummey trust or charitable remainder trust.

Impact On Financial Aid

For need-based financial aid purposes, assets considered to be owned by the **parents** have a relatively small negative impact. Assets considered to be owned by the **child** have a much greater negative impact. Trust assets are often considered to be owned by the child, but this can vary widely. Frequently, trust provisions restrict access to principal, thus forcing inclusion of the trust assets in the eligibility process each year that a student is in school. Non-trust assets can be "spent down" in a year or two, limiting their financial aid impact.

Other Resources

There are a number of excellent references and guides to investments and college planning available in bookstores and public libraries. State and federal agencies involved in higher education also are excellent sources of information. In addition, there are a number of sites on the Internet which can provide information, including the following:

- **The College Board** – http://www.collegeboard.org
- **FinAid! The SmartStudent® Guide To Financial Aid** – http://www.finaid.org
- **College Savings Plan Network** – links to state-run web pages on prepaid tuition or college savings plans, at: http://www.collegesavings.org
- **U.S. Department of Education – student aid website** – https://studentaid.ed.gov/

Begin Early and Seek Professional Guidance

Developing a plan to save for a child's college education can be complicated. Questions can arise involving income tax, estate and gift taxes, investment issues, and the impact of asset ownership on financial aid eligibility. Individuals are strongly advised to begin a savings program as early as possible, and seek professional guidance.

529 Education Savings Plan

Federal tax law allows[1] the states to establish tax-advantaged savings programs to pay for a student's qualified educational expenses. In these programs, cash contributions are made to an account established for a named beneficiary. An investment management firm typically manages account funds. The amount ultimately available to pay for the beneficiary's education depends on growth in the account between contribution and withdrawal. Such education savings accounts are not insured and losses are possible.

Under federal tax law, contributions are not tax deductible and any growth in an account is tax-deferred. Distributions used solely to pay for qualified educational expenses are federally tax-exempt. State or local law, however, can vary widely; contributions may or may not be tax deductible, and distributions may or may not be tax exempt.

Key Definitions Under IRC Sec. 529

- **Qualified higher educational expenses:** For post-secondary education, generally, tuition, fees, books, supplies, and equipment required for attendance qualify. Computers, software, peripheral equipment, and internet access also qualify if they are to be used primarily by the beneficiary while the beneficiary is enrolled at an eligible education institution. Reasonable costs of room and board are also included if the student is attending school at least half time. Additionally, qualified expenses include costs incurred to allow a special needs beneficiary to enroll at and attend an eligible institution.

  Beginning in 2018, the Tax Cuts and Jobs Act of 2017 (TCJA) expanded the definition of qualified higher education expenses to include expenses for tuition incurred in connection with the enrollment or attendance of the designated beneficiary at an elementary or secondary, public, private, or religious school.

[1] "529" refers to Section 529 of the Internal Revenue Code, the section of federal law which authorizes these plans. The discussion here concerns federal income tax law. State or local law may differ.

The SECURE Act, effective for distributions after December 31, 2018, further expanded the definition of qualified higher education expenses to include expenses related to participation by a designated beneficiary in an apprenticeship program registered with the Secretary of Labor. This act also provided for distributions for the payment of interest or principal of a qualified education loan for the designated beneficiary or a sibling.

- **Eligible educational institution:** Generally, accredited post high-school institutions offering associates, bachelors, graduate level, or professional degrees qualify as eligible. Certain vocational schools are also included. Elementary or secondary public, private, or religious schools, as well as apprenticeship programs registered with the Secretary of Labor also qualify.

Contributions

Contributions to a savings plan must be in cash and may not exceed the amount necessary to provide the beneficiary's qualified educational expenses. While some donors contribute lump-sum amounts, many 529 savings plan accounts are set up with automatic monthly payments. Other considerations include:

- For federal gift tax purposes, contributions are considered completed gifts of a present interest. Generally, no federal gift tax will be payable if a contribution is limited to the annual gift tax exclusion amount. For 2024, this is $18,000. A married couple can elect to "split" gifts for a total annual contribution of $36,000.
- If a contribution for a single beneficiary in one calendar year exceeds the annual exclusion amount, the donor may elect to treat the contribution as having been made ratably over a five-year period.[1] Thus, for 2024, an individual could contribute up to $90,000 for a single beneficiary in one calendar year. If a married couple elects gift splitting, $180,000 could be contributed.
- Contributions may be made to both a savings plan and a Coverdell Education Savings Account (Coverdell ESA) for the same beneficiary in the same year.

[1] If the donor dies before the end of the five years, a pro-rata portion of the contribution is included in his or her estate. Any amounts in a savings plan when the beneficiary dies will generally be includable in the beneficiary's estate.

Distributions

For federal income tax purposes, distributions used to pay for post-secondary qualified educational expenses are excluded from gross income if the amount distributed does not exceed the amount of qualified educational expenses. If a distribution is greater than the amount of qualified educational expenses, a portion of the earnings may be subject to federal income tax and a 10% penalty tax may also apply

Tax-free distributions in connection with the enrollment or attendance of a designated beneficiary at an elementary or secondary public, private, or religious school are limited to $10,000 per year. This limitation applies on a per-student basis, not a per-account basis. Any distribution in excess of $10,000 is subject to tax. No more than $10,000 (a lifetime limit) may be distributed for any one individual in payment of principal or interest on a qualified education loan.

- **Distributions due to the death or disability of the beneficiary, or the receipt of certain scholarships:** The earnings portion of the distribution is taxable as ordinary income to the recipient of the payment.

- **Rollover distributions:** Federal law allows one tax-free transfer every twelve months, from one savings plan to another, for the same beneficiary. Funds may be rolled from a 529 education savings plan to a 529 prepaid tuition plan and vice versa. If there is a change of beneficiary within the same family, the rollover must be completed within 60 days or the earnings portion will be subject to tax. If a new beneficiary is not part of the same family as the original beneficiary, the earnings portion of the transfer is subject to current income tax.
- **ABLE account rollovers:** TCJA, for 2018 – 2025, allows amounts from 529 plans to be rolled over to an ABLE account, provided that the ABLE account is owned by the beneficiary of the 529 account or a member of the beneficiary’s family. Such rolled-over amounts count toward the annual limitation ($18,000 in 2024) that can be contributed to an ABLE account. Any amount rolled over in excess of this limit will be included in the beneficiary’s gross income.
- **Other distributions:** If a distribution is made from a savings plan for any other reason, the earnings portion of the distribution is included in the taxable income of the recipient. A 10% penalty tax is also applied against the distributed earnings.

- **529 Plan Rollover to Roth Account:** For distributions after 2023, a beneficiary for whom a Sec. 529 Qualified Tuition Plan has been in existence for at least 15 years may make tax and penalty-free contributions to a Roth IRA from the 529 plan in a direct, trustee-to-trustee transfer. Such contributions are limited to a lifetime maximum of $35,000, are subject to the annal IRA contribution limits ($7,000 in 2024), and may not exceed the aggregate amount contributed to the 529 plan (and earnings thereon) before the five-year period ending on the date of distribution
- **State and local law:** State and local law can vary widely from federal law with regard to the income tax treatment of both contributions and withdrawals.
- **Coordination with other programs:** A beneficiary may generally also claim either the American Opportunity Tax Credit or Lifetime Learning Credit (not both for the same student in the same tax year) or, receive a distribution from a Coverdell ESA, as long as the qualifying educational expenses are not the same.

Education Savings Account Characteristics

There are a number of account characteristics that a donor should clearly understand:

- The beneficiary must be identified at the time an account is created.[1] The account owner is usually the primary contributor. However others, such as grandparents, may also contribute.
- The account owner may change the beneficiary. If the new beneficiary is a member of the same family,[2] there is generally no current federal income tax liability.
- Amounts accumulated in a savings plan operated by one state generally may be used at educational institutions in a different state.
- An education savings plan involves investment risk, including the potential to lose money. Contributing to an education savings plan does not ensure that your education funding goals will be met. Further, there is no guarantee that a beneficiary will be admitted to a particular school or college.

[1] An exception exists for organizations accumulating funds for future scholarships.

[2] Generally, siblings, children, grandchildren, parents, grandparents, nieces or nephews, uncles or aunts, their spouses, and first cousins are considered members of the same family.

- Under federal law, neither the beneficiary nor the account owner is permitted to direct the investments in the account. Account owners may, however, choose among broad investment strategies established by the program sponsor. A change in investment strategy is generally permitted twice each calendar year, or when a new beneficiary is named.
- Most 529 savings plans require that funds contributed for a beneficiary from a custodial account become the property of the beneficiary when the beneficiary reaches his or her majority. A custodial account is one set up under the Uniform Gifts to Minors Act (UGMA), the Uniform Transfers to Minors Act (UTMA), or the local state version.

Other Issues to Consider

- **Home State Plans:** The fees, expenses, and features of education savings plans vary widely from state to state; some states have more than one plan. Consider whether the plan in your (or the beneficiary's) home state offers any tax or other benefits that are only available to participants in that particular state's plan.
- **Effect on financial aid:** Assets in a 529 savings plan are considered in the "Expected Family contribution" calculations. Tax-free distributions from a 529 savings account (those used to pay for qualified educational expenses) are not counted as income to either the parent or student in the financial aid determination process.[1]

Internet Resources

- **The College Board:** https://www.collegeboard.org
- **Finaid:** https://www.finaid.org
- **College Savings Plan Network:** links to state-run web pages on prepaid tuition or college savings plans, at: https://www.collegesavings.org
- **U.S. Department of Education – student aid website:** https://studentaid.gov

Seek Professional Guidance

Individuals considering an education savings plan are faced with a number of income, gift, estate tax, and investment questions. The guidance of appropriate tax, legal, need-based student aid, and financial professionals is highly recommended.

[1] See the U.S. Department of Education "Dear Colleague" letter of January 22, 2004, GEN-04-02.

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Contributions to a savings plan must be in cash and may not exceed the amount necessary to provide the beneficiary's qualified educational expenses. While some donors contribute lump-sum amounts, many 529 savings plan accounts are set up with automatic monthly payments. Other considerations include:

- For federal gift tax purposes, contributions are considered completed gifts of a present interest. Generally, no federal gift tax will be payable if a contribution is limited to the annual gift tax exclusion amount. For 2024, this is $18,000. A married couple can elect to "split" gifts for a total annual contribution of $36,000.
- If a contribution for a single beneficiary in one calendar year exceeds the annual exclusion amount, the donor may elect to treat the contribution as having been made ratably over a five-year period.[1] Thus, for 2024, an individual could contribute up to $90,000 for a single beneficiary in one calendar year. If a married couple elects gift splitting, $180,000 could be contributed.
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[1] If the donor dies before the end of the five years, a pro-rata portion of the contribution is included in his or her estate. Any amounts in a savings plan when the beneficiary dies will generally be includable in the beneficiary's estate.

Distributions

For federal income tax purposes, distributions used to pay for post-secondary qualified educational expenses are excluded from gross income if the amount distributed does not exceed the amount of qualified educational expenses. If a distribution is greater than the amount of qualified educational expenses, a portion of the earnings may be subject to federal income tax and a 10% penalty tax may also apply

Tax-free distributions in connection with the enrollment or attendance of a designated beneficiary at an elementary or secondary public, private, or religious school are limited to $10,000 per year. This limitation applies on a per-student basis, not a per-account basis. Any distribution in excess of $10,000 is subject to tax. No more than $10,000 (a lifetime limit) may be distributed for any one individual in payment of principal or interest on a qualified education loan.

- **Distributions due to the death or disability of the beneficiary, or the receipt of certain scholarships:** The earnings portion of the distribution is taxable as ordinary income to the recipient of the payment.

- **Rollover distributions:** Federal law allows one tax-free transfer every twelve months, from one savings plan to another, for the same beneficiary. Funds may be rolled from a 529 education savings plan to a 529 prepaid tuition plan and vice versa. If there is a change of beneficiary within the same family, the rollover must be completed within 60 days or the earnings portion will be subject to tax. If a new beneficiary is not part of the same family as the original beneficiary, the earnings portion of the transfer is subject to current income tax.
- **ABLE account rollovers:** TCJA, for 2018 – 2025, allows amounts from 529 plans to be rolled over to an ABLE account, provided that the ABLE account is owned by the beneficiary of the 529 account or a member of the beneficiary's family. Such rolled-over amounts count toward the annual limitation ($18,000 in 2024) that can be contributed to an ABLE account. Any amount rolled over in excess of this limit will be included in the beneficiary's gross income.
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- **State and local law:** State and local law can vary widely from federal law with regard to the income tax treatment of both contributions and withdrawals.
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- An education savings plan involves investment risk, including the potential to lose money. Contributing to an education savings plan does not ensure that your education funding goals will be met. Further, there is no guarantee that a beneficiary will be admitted to a particular school or college.

[1] An exception exists for organizations accumulating funds for future scholarships.

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- **Finaid:** https://www.finaid.org
- **College Savings Plan Network:** links to state-run web pages on prepaid tuition or college savings plans, at: https://www.collegesavings.org
- **U.S. Department of Education – student aid website:** https://studentaid.gov

Seek Professional Guidance

Individuals considering an education savings plan are faced with a number of income, gift, estate tax, and investment questions. The guidance of appropriate tax, legal, need-based student aid, and financial professionals is highly recommended.

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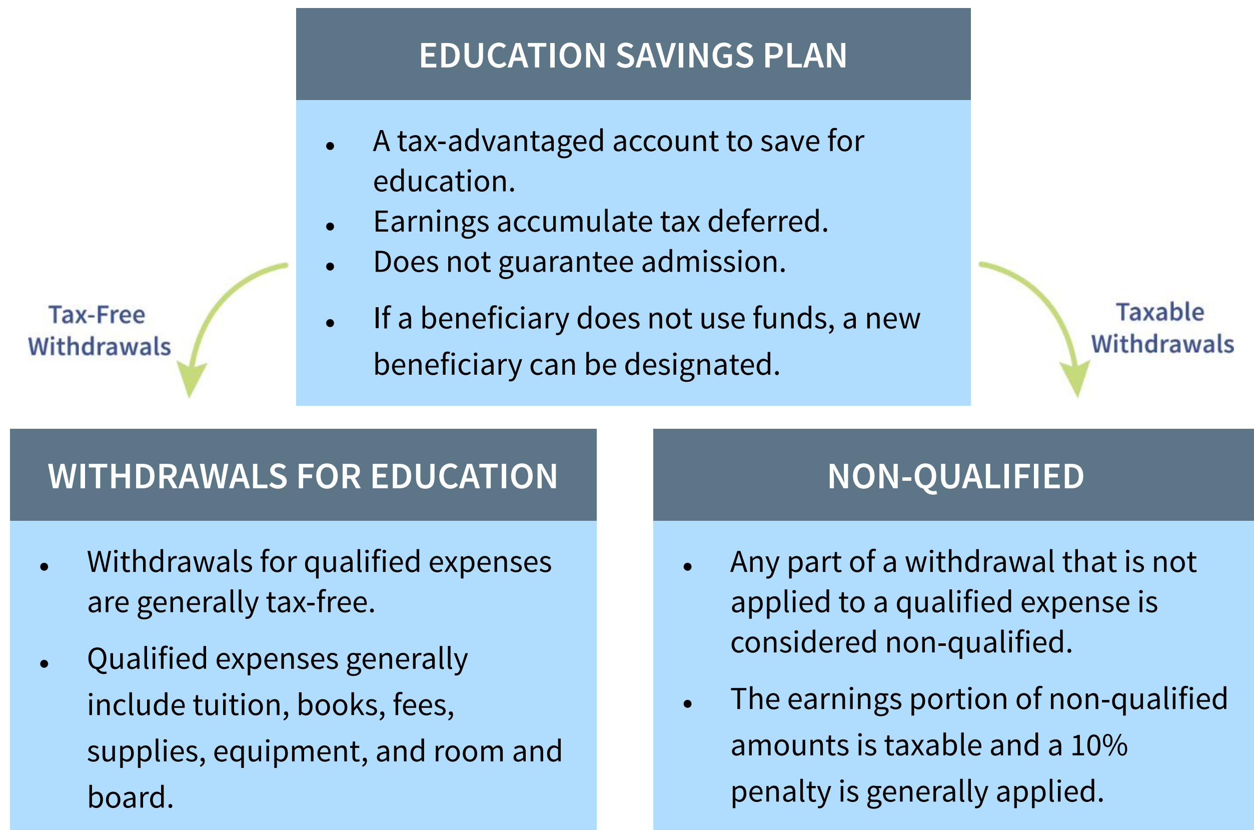
[1] See the U.S. Department of Education "Dear Colleague" letter of January 22, 2004, GEN-04-02.

How a 529 Education Savings Plan Works

A "529" education savings plan is a tax-favored program operated by a state designed to help families save for future education costs. While the fees, expenses, and features of these plans will vary from state to state, as long as a plan satisfies the requirements of Section 529 of the Internal Revenue Code,[1] federal tax law provides tax benefits for both the contributor and the beneficiary.

How Does It Work?



[1] Federal law does not allow income tax deductions for contributions to 529 plans, although growth inside a plan is tax-deferred and qualified distributions are tax-exempt. State or local tax law can vary widely. 529 plans involve investment risk, including possible loss of funds, and there is no guarantee an education – savings goal will be met.

Section 529 Qualified Tuition Plans

To encourage saving for higher education, Congress created Section 529 of the Internal Revenue Code. This law provides for two tax-advantaged programs that parents and others can use to accumulate some or all of the resources needed to pay for college.

- **Prepaid tuition plans:** Cash contributions are made to a qualified trust to "prepay," at today's prices, a beneficiary's future tuition costs. This approach allows you to purchase a number of course units or academic periods that are redeemed when the beneficiary is old enough to attend college.

- **Higher education savings plans:** Cash contributions are made to an account established for a named beneficiary. An investment management firm typically directs the investments. The amount of money available for higher education expenses depends on growth in the account between contribution and withdrawal.

Under federal tax law, contributions are not tax deductible and any growth in an account is tax-deferred. Distributions used solely to pay for qualified higher education expenses are federally tax-exempt. The earnings portion of a "non-qualified" distribution is taxable to the beneficiary and may be subject to a 10% tax penalty. State or local law can vary.

Issues to Consider

- **Investment risk:** Prepaid tuition plans are generally seen as having a lower level of market risk, along with a lower rate of return. Higher education savings plans combine the potential for gain with the possibility of losing money.

- **Home state plans:** Does the plan in your (or the beneficiary's) home state offer any tax or other benefits that are only available to participants in such state's plan?

- **Expenses covered:** Generally, tuition, fees, books, supplies, and equipment required for attendance qualify. Computers, software, peripheral equipment, and internet access also qualify if they are to be used primarily by the beneficiary while the

beneficiary is enrolled at an eligible education institution.[1] Reasonable costs of room and board are also included if the student is attending school at least half time. Additionally, qualified expenses include costs incurred to allow a special needs beneficiary to enroll at and attend an eligible institution. Even though the law allows for prepaid tuition plans to include room and board, many plans specifically exclude these expenses.

- **Flexibility:** What happens if a beneficiary decides not to attend college? How easy is it to change the beneficiary, so that the assets may be used for someone else? What expenses or fees are involved if the account owner wants to terminate the plan? Is there a different rate of return if the beneficiary attends college in a different state or if the account owner terminates the plan?

Seek Professional Guidance

Individuals and families considering a qualified tuition plan are faced with a number of complex income, gift, estate, and investment questions. The guidance of appropriate tax, legal, need-based student aid, and financial professionals is highly recommended.

[1] The addition of computer equipment, software, and internet access as qualified expenses was included in the Protecting Americans From Tax Hikes Act of 2015, effective for tax years beginning after December 31, 2014.

CHAPTER 7

ADDITIONAL INFORMATION

SOUTHERN PRACTICE
CONSULTING GROUP, LLC

2024 TAX
REFERNCE GUIDE

Tax Brackets for 2024

Taxable income (i.e., income minus deductions and credits) between:

Married, Joint & Surviving Spouses	Marginal Tax Rates
$0–$23,200	10%
$23,201–$94,300	12%
$94,301–$201,050	22%
$201,051–$383,900	24%
$383,901–$487,450	32%
$487,451–$731,200	35%
over $731,200	37%
Single	
$0–$11,600	10%
$11,601–$47,150	12%
$47,151–$100,525	22%
$100,526–$191,950	24%
$191,951–$243,725	32%
$243,726–$609,350	35%
over $609,350	37%
Married, Separate	
$0–$11,600	10%
$11,601–$47,150	12%
$47,151–$100,525	22%
$100,525–$191,950	24%
$191,951–$243,725	32%
$243,726–$365,600	35%
over $365,600	37%
Head of Household (HOH)	
$0–$16,550	10%
$16,551–$63,100	12%
$63,101–$100,500	22%
$100,501–$191,950	24%
$191,951–$243,700	32%
$243,701–$609,350	35%
over $609,350	37%
Estates and Trusts	
$0–$3,100	10%
$3,101–$11,150	24%
$11,151–$15,200	35%
over $15,200	37%
Corporate Tax Rate	21%

Long-Term Capital Gains and Qualified Dividend Tax Rates

Married, Joint	
$0–$94,050	0%
$94,051–$583,750	15%
over $583,750	20%
Single	
$0–$47,025	0%
$47,026–$518,900	15%
over $518,900	20%
Married, Separate	
$0–$47,025	0%
$47,026–$291,850	15%
over $291,850	20%
HOH	
$0–$63,000	0%
$63,001–$551,350	15%
over $551,350	20%
Estates and Trusts	
$0–$3,150	0%
$3,151–$15,450	15%
over $15,450	20%
Corporate Tax Rate	21%

Standard Deduction

Married, joint	$29,200
Single; Married, separate	$14,600
HOH	$21,900

Blind or over 65: add $1,550 if married
$1,950 if single or HOH

Mortgage Interest Deduction
On acquisition indebtedness up to $750,000 for 1st and 2nd homes
No deduction for home equity indebtedness

State and Local Tax Deduction Limit
State and local income and property tax deduction $10,000

Alternative Minimum Tax Exemption Amounts

Married, joint	$133,300
Single; HOH	$85,700
Estates and Trusts	$29,900
Married, separate	$66,650

IRA and Pension Plan Limits

IRA contribution	
Under age 50	$7,000
Age 50 and over	$8,000
Phaseout for deducting IRA contribution[1]	
Married, joint	$123,000–$143,000 MAGI
Single; HOH	$77,000–$87,000 MAGI
Married, separate	$0–$10,000 MAGI
Phaseout for deducting spousal IRA[1]	$230,000–$240,000 MAGI
Phaseout of Roth contribution eligibility	
Married, joint	$230,000–$240,000 MAGI
Single; HOH	$146,000–$161,000 MAGI
Married, separate	$0–$10,000 MAGI
SEP contribution	
Up to 25% of compensation, limit $69,000	
Compensation to participate in SEP	$750
SIMPLE elective deferral	
Under age 50	$16,000
Age 50 and over	$19,500
401(k), 403(b)[2], 457[3] and SARSEP elective deferral	
Under age 50	$23,000
Age 50 and over	$30,500
Annual defined contribution limit	$69,000
Annual defined benefit limit	$275,000
Highly compensated employee	$155,000
Key Employee in top-heavy plan	$220,000
Annual compensation taken into account for qualified plans	$345,000

Retirement Tax Credit

A percentage tax credit for an IRA, 401(k), 403(b)[2] or 457[3] plan contribution, in addition to deduction or exclusion, if

Married, joint	Below $76,500 AGI
HOH	Below $57,375 AGI
Single; Married, separate	Below $38,250 AGI
Maximum Qualified Longevity Annuity Contract (QLAC) premium	$200,000[4]
Qualified Charitable Distribution Limit	$105,000

Gift and Estate Tax

Gift tax annual exclusion	$18,000
Estate and gift tax rate	40%
Unified estate & gift/ GST exemption	$13,610,000
Annual exclusion for gifts to noncitizen spouse	$185,000

Additional Medicare Tax Where Income Exceeds $200,000 ($250,000 married, joint)

Additional tax on excess of earned income[5]	0.9%
Additional tax on Net Investment Income[6]	3.8%

Health Care

Eligible Long-Term Care	Deduction Limit
Age 40 or less	$470
Age 41 to 50	$880
Age 51 to 60	$1,760
Age 61 to 70	$4,710
Ages over 70	$5,880
Per Diem Limitation for LTC Benefits	$410

199A Qualified Business Income Deduction Phaseout

Married, joint	$383,900–$483,900
All others	$191,950–$241,950

1. Applicability depends on the type of IRA, which persons participate in an employer-sponsored plan, the type of employer-sponsored plan offered, and MAGI.
2. Special increased limit may apply to certain 403(b) contributors with 15 or more years of service.
3. In last three years prior to year of retirement, 457(b) plan participant may be able to double elective deferral if needed to catch-up on prior missed contributions, but if they do, they cannot use catch-up.
4. Increased to $200,000 for contracts purchased or exchanged after 12/28/2022.
5. Total Employee Medicare Tax is 1.45% + 0.9% = 2.35%.
6. Including interest, dividends, capital gains and annuity distributions.

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2024 TAX REFERNCE GUIDE

Education

Coverdell Education Savings Account	$2,000
Coverdell contribution eligibility phaseout	
Married, joint	$190,000–$220,000
All others	$95,000–$110,000
Student loan interest deduction limit	$2,500
Interest deduction phaseout	
Married, joint	$165,000–$195,000 MAGI
All others	$80,000–$95,000 MAGI
Phaseout of Lifetime Learning Credits	
Married, joint	$160,000–$180,000
All others	$80,000–$90,000
Tax-free savings bonds interest phaseout	
Married, joint	$145,200–$175,200 MAGI
All others	$96,800–$111,800 MAGI

Social Security[7]

Maximum taxable earnings base	$168,600
Amount needed to earn one credit	$1,730
Amount needed to earn four credits	$6,920
Social Security and Medicare Tax Rates	
Employee	7.65%
Employer	7.65%
Self-Employed	15.30%
Maximum monthly retirement	
Benefit at full retirement age*	$3,822
Cost of Living Adjustment	3.2%

Income[8] (in retirement) causing Social Security benefits to be taxable

Married, joint	
Up to 50% taxable	$32,000 MAGI
Up to 85% taxable	$44,000 MAGI
Single	
Up to 50% taxable	$25,000 MAGI
Up to 85% taxable	$34,000 MAGI

Reduction of Social Security retirement benefits: In years prior to full retirement age, $1 in benefits will be reduced for every $2 of earnings in excess of $22,320. In the year of full retirement age, $1 in benefits will be reduced for every $3 of earnings in excess of $59,520 (applies only to months of earnings prior to full retirement age). There is no limit on earnings beginning the month an individual attains full retirement age.

Average monthly benefit (December 2022)

Average monthly retirement benefit	
Men	$2,020
Women	$1,683
Average monthly survivor benefit	
Men	$1,509
Women	$1,714

Source: Fast Facts and Figures about Social Security, 2023

7. Source: Social Security Administration, www.ssa.gov/news/cola, 10/12/23.
8. Income is most income, including muni bond interest and 50% of Social Security benefit.

*In 2024, for those turning age 62, full retirement age is 67 years.

Information contained herein is current as of 12/1/23, general in nature, for informational purposes only, subject to legislative changes and is not intended to be legal or tax advice. Consult a qualified tax advisor regarding specific circumstances. The investment products discussed are not bank products and are neither the obligations of, nor are they guaranteed by, the financial institution where they are offered. They are not insured by the FDIC, NCUSIF, or any other federal entity and are subject to investment risk, including possible loss of principal and interest.

Uniform Lifetime Table

Use to calculate Required Minimum Distributions^ from IRAs and qualified plans **during** owner's life. Do not use this table if owner has spousal beneficiary more than 10 years younger. Instead use Joint Life Table from IRS Pub. 590.

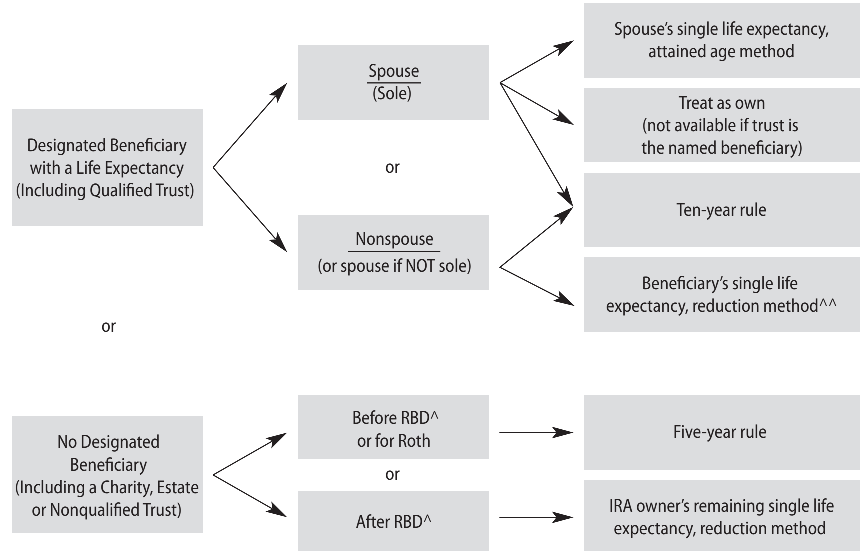
Taxpayer's Age	Life Expectancy	Taxpayer's Age	Life Expectancy
72	27.4	95	8.9
73	26.5	96	8.4
74	25.5	97	7.8
75	24.6	98	7.3
76	23.7	99	6.8
77	22.9	100	6.4
78	22.0	101	6.0
79	21.1	102	5.6
80	20.2	103	5.2
81	19.4	104	4.9
82	18.5	105	4.6
83	17.7	106	4.3
84	16.8	107	4.1
85	16.0	108	3.9
86	15.2	109	3.7
87	14.4	110	3.5
88	13.7	111	3.4
89	12.9	112	3.3
90	12.2	113	3.1
91	11.5	114	3.0
92	10.8	115	2.9
93	10.1	116	2.8
94	9.5	117	2.7

Single Life Table

Use to calculate Required Minimum Distributions^ from IRAs and qualified plans **after** owner's death. See IRS Pub. 590 for complete table of ages 0 through 111+.

Age	Multiple	Age	Multiple
39	46.7	64	23.7
40	45.7	65	22.9
41	44.8	66	22.0
42	43.8	67	21.2
43	42.9	68	20.4
44	41.9	69	19.6
45	41.0	70	18.8
46	40.0	71	18.0
47	39.0	72	17.2
48	38.1	73	16.4
49	37.1	74	15.6
50	36.2	75	14.8
51	35.3	76	14.1
52	34.3	77	13.3
53	33.4	78	12.6
54	32.5	79	11.9
55	31.6	80	11.2
56	30.6	81	10.5
57	29.8	82	9.9
58	28.9	83	9.3
59	28.0	84	8.7
60	27.1	85	8.1
61	26.2	86	7.6
62	25.4	87	7.1
63	24.5	88	6.6

IRA Beneficiary Options



^RBD defined as "Required Beginning Date" (April 1 following the year a Traditional IRA owner reaches age 73.

^^Method only available if the non-spouse beneficiary is the minor child of the deceased IRA owner (until the child's age of majority), disabled, chronically ill or not more than 10 years younger than the deceased IRA owner.

CHAPTER 8

ABOUT US

SOUTHERN PRACTICE
CONSULTING GROUP, LLC

EMPOWERING VETERINARY PRACTICES WITH STRATEGIC CONSULTING

At Southern Practice Consulting Group, we deliver comprehensive consulting services designed to empower veterinary practice owners. Our focus is on financial planning that drives profitability, builds a strong and loyal team, and secures long-term success. We understand the unique challenges veterinary practice owners face, particularly the risks associated with key employee departures, and we're here to help you navigate them.

Our focus is on innovative, unconventional strategies that significantly enhance your practice's overall profitability and value while effectively minimizing tax liabilities.

WHY PLANNING YOUR EXIT STRATEGY MATTERS

Planning your exit strategy is a crucial step that shouldn't be delayed. Whether you're looking to retire in the next 5 to 10 years or simply want to secure your practice's future, our step-by-step plans are tailored to span 3 to 10 years. We use innovative, unconventional strategies to maximize your financial outcomes while minimizing tax liabilities, ensuring your practice remains profitable and valuable.

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OUR APPROACH TO SUCCESS

We specialize in creating personalized strategies that enhance your practice's profitability and value. Our approach includes:

Establish Baseline Metrics

We begin by assessing your current financial health to establish a clear starting point for growth.

Developing Vision & Strategy

Together, we craft a vision and strategy that aligns with your long-term goals, ensuring every step we take is purposeful.

Setting Tactical Plans & Strategic Goals

We create a detailed tactical plan with specific goals that drive your practice towards long-term success.

Executing the Plan

With a clear plan in place, we guide you through execution, ensuring every action contributes to achieving your financial objectives.

Assembling an Expert Team

We bring together a team of experts to guide you through every aspect of your strategy, providing specialized support where needed.

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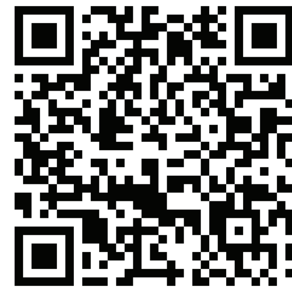
CAN WE STAY IN TOUCH?

Use the following QR codes below to follow us on social media or subscribe to our newsletter... and don't worry, we only send a handful per year just to keep you up-to-date with industry news and veterinarian-tailored offers (like our limited time Guaranteed-Issue Life Insurance with Long-Term Care offer).



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