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Hello everyone,

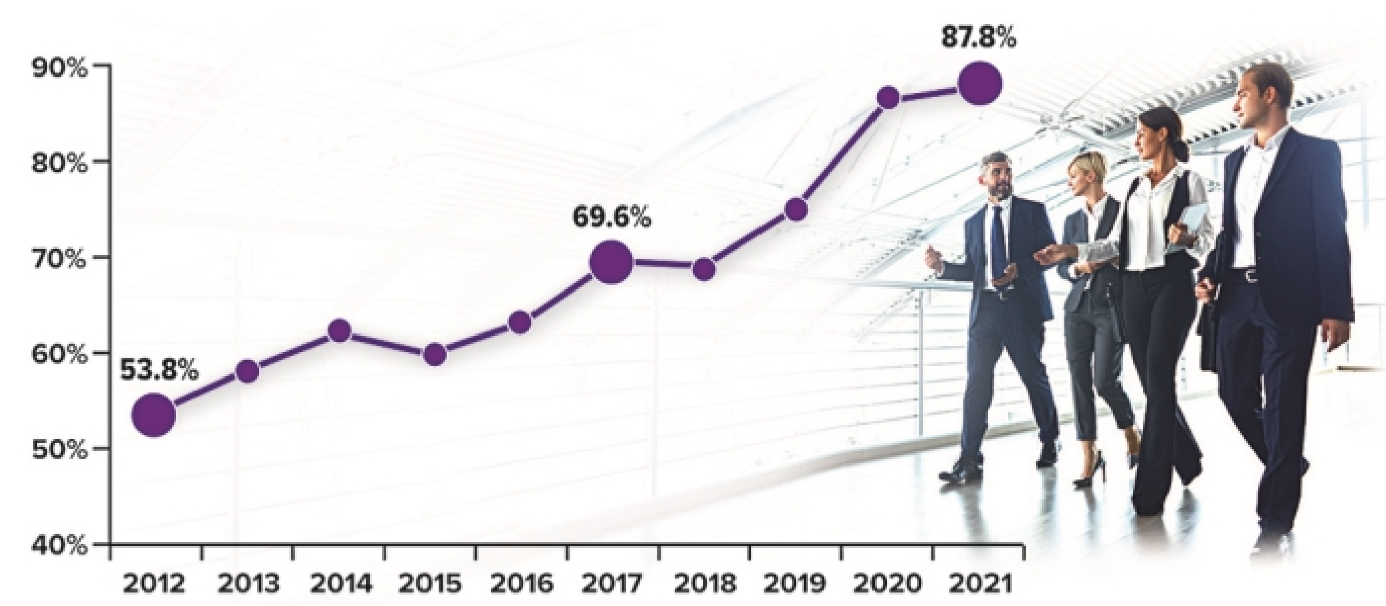
The season of cooler weather, warm sweaters, and pumpkin everything is upon us. As we head into the end of the year, it is a great time to make sure you are on track with your yearly goals. We are available to meet for in-person meetings, a Zoom call, or a phone chat around your schedule.

Dan, Matt, and Karisa

Diligence is the mother of good luck. – Benjamin Franklin

Employee Access to Roth 401(k) Plans on the Rise

Roth 401(k) plans can offer an ideal opportunity to build a source of tax-free retirement income. There are no income restrictions to participate, they have much higher contribution limits than Roth IRAs, and they may offer employer matching contributions. And thanks to the SECURE 2.0 Act of 2022, beginning in 2024, Roth 401(k)s will no longer impose required minimum distributions in retirement. The percentage of employers offering a Roth 401(k) plan grew substantially from 2012 to 2021, a trend that may continue.



Qualified withdrawals from Roth 401(k)s are free of federal income taxes if the account is held for at least five years and the account holder reaches age 59½, becomes disabled, or dies. State income taxes may apply. Nonqualified withdrawals are subject to regular income taxes and a 10% penalty.

Source: Plan Sponsor Council of America, 2022

Coming in 2024: New 529 Plan-to-Roth IRA Rollover Option

In December 2022, Congress passed the SECURE 2.0 Act. It introduced two new rules relating to 529 plans and student debt that will take effect in 2024.

The first provision allows for tax- and penalty-free rollovers from a 529 plan to a Roth IRA. The second provision allows student loan payments made by employees to qualify for employer retirement matching contributions.

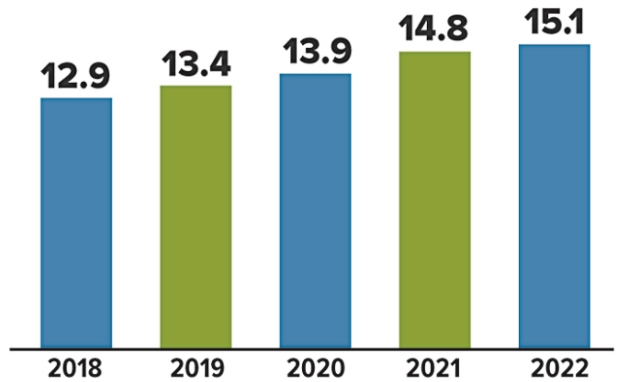
529 Plan to Roth IRA Rollover

529 plans are tax-advantaged savings accounts specifically geared to saving for college. In an effort to broaden their flexibility in situations where families have extra funds in an account, Congress created a new rollover option. Starting in 2024, 529 plan beneficiaries can roll over up to $35,000 to a Roth IRA over their lifetime. Here are the specific rules:

- Any rollover is subject to annual Roth IRA contribution limits, so a beneficiary can't roll over $35,000 all at once. For example, in 2023, the Roth IRA contribution limit is $6,500 (for people under age 50) or earned income, whichever is less. If the limit remains the same in 2024, a beneficiary would be able to roll over up to $6,500.
- In order for the rollover to be tax- and penalty-free, the 529 plan must have been open for at least 15 years. If the 529 account owner (typically a parent) changes the beneficiary of the 529 plan at any point, this could potentially restart the 15-year clock.
- Contributions to a 529 plan made within five years of the rollover date can't be rolled over — only 529 contributions made outside of the five-year window can be rolled over to the Roth IRA. For more information on determining the date of contributions, contact the 529 plan manager.

Example: Kate opens a 529 account for her son Joe when he is three years old. Kate contributes to the account for 15 years. At age 18, Joe enters college. Kate continues to contribute to the account while Joe is in college. Joe graduates, and there is money left over in the 529 account. Because the account has been open for at least 15 years, Joe is eligible to roll over funds from the 529 account to a Roth IRA in his name. He can roll over an amount up to the annual Roth IRA contribution limit, provided he doesn't transfer any contributions made to the 529 account in the past five years. Joe can continue rolling over funds from the 529 plan to the Roth IRA (consecutive years or intermittent years) until he has reached the $35,000 lifetime limit.

Number of 529 college savings plan accounts, 2018–2022, in millions



Source: ISS Market Intelligence, 529 Market Highlights, 4Q 2019–2023

Student Loan Payments Can Qualify for Employer Retirement Match

Employees with student debt often have to prioritize repaying their loans over contributing to their workplace retirement plan, which can mean missing out on any potential employer retirement matching contributions. Starting in 2024, the SECURE 2.0 Act gives employers the option to treat an employee's student loan payments as payments made to a qualified retirement plan (student loan payments will be considered an "elective deferral"), which would make those contributions eligible for an employer retirement match (if an employer offers this benefit).

There are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 plan should be discussed with your legal and/or tax professionals because they can vary significantly from state to state. Most states offering their own 529 plans may provide advantages and benefits exclusively for their residents and taxpayers, which may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 plan, consider the investment objectives, risks, charges, and expenses, which are available in the issuer's official statement and should be read carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, can be obtained by contacting your financial professional.

SECURE 2.0 Act Expands Early Withdrawal Exceptions

Tax-advantaged retirement accounts such as 401(k) plans and IRAs are intended to promote long-term retirement savings and thus offer preferential tax treatment in return for a commitment to keep savings in the account until at least age 59½. Withdrawals before that age may be subject to a 10% federal income tax penalty on top of ordinary income tax. However, there is a long list of exceptions to this penalty, including several new ones added by the SECURE 2.0 Act of 2022.

Before considering these exceptions, keep in mind that the greatest penalty for early withdrawal from retirement savings could be the loss of future earnings on those savings (see chart). Even so, there are times when tapping retirement savings might be necessary.

Some employer plans allow loans that may be a better solution than an early withdrawal. If a loan or other resources are not available, these exceptions could help. They apply to both employer-sponsored plans and IRAs unless otherwise indicated.

New Exceptions

The SECURE 2.0 Act added the following exceptions to the 10% early withdrawal penalty. Withdrawals covered by these exceptions can be repaid within three years. If the repayment is made after the year of the distribution, an amended return would have to be filed to obtain a refund of any taxes paid.

- **Disaster relief** — up to $22,000 for expenses related to a federally declared disaster; distributions can be included in gross income equally over three years (effective for disasters on or after January 26, 2021)
- **Terminal illness** — defined as a condition that will cause death within seven years as certified by a physician (effective 2023)
- **Emergency expenses** — one distribution of up to $1,000 per calendar year for personal or family emergency expenses; no further emergency distributions allowed during three-year repayment period unless funds are repaid or new contributions are at least equal to the withdrawal (effective 2024)
- **Domestic abuse** — the lesser of $10,000 (indexed for inflation) or 50% of the account value for an account holder who certifies that he or she has been the victim of domestic abuse during the preceding one-year period (effective 2024)

Exceptions Already in Place

These exceptions to the 10% early withdrawal penalty were in effect prior to the SECURE 2.0 Act. They cannot be repaid unless indicated.

- Death or permanent disability of the account owner
- A series of substantially equal periodic payments for the life of the account holder or the joint lives of the account holder and designated beneficiary
- Unreimbursed medical expenses that exceed 7.5% of adjusted gross income
- Up to $5,000 for expenses related to the birth or adoption of a child; can be repaid within three years
- Distributions taken by an account holder on active military reserve duty; can be repaid up to two years after end of active duty
- Distributions due to an IRS levy on the account
- (IRA only) Up to $10,000 lifetime for a first-time homebuyer to buy, build, or improve a home
- (IRA only) Health insurance premiums if unemployed
- (IRA only) Qualified higher education expenses

Lost Opportunity

An early retirement plan withdrawal could end up costing more than you might imagine, even without the 10% penalty. Income taxes will reduce the present value of the withdrawal, and you will lose the potential long-term growth on the amount withdrawn.

This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment. Fees and expenses are not considered and would reduce the performance shown if they were included. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Special Exceptions for Employer Accounts

The 10% penalty does not apply for distributions from an employer plan to an employee who leaves a job after age 55, or age 50 for qualified public safety employees. SECURE 2.0 extended the exception to public safety officers with at least 25 years of service with the employer sponsoring the plan, regardless of age, as well as to state and local corrections officers and private-sector firefighters.

Retirement account withdrawals can have complex tax consequences. Consult your tax professional before taking specific action.

Clean Vehicle Tax Credits: New vs. Qualified Commercial

Federal tax credits may be available to help offset your cost to purchase certain clean vehicles (including electric, plug-in hybrid, and fuel cell vehicles).

The new clean vehicle tax credit can be either a personal or a general business tax credit, depending on whether the vehicle is used in a trade or business. If the vehicle is used 50% or more for business, the credit is treated as a general business tax credit; otherwise, the credit is allocated between personal and business use. The qualified commercial clean vehicles tax credit is a general business tax credit. Both credits are nonrefundable if they exceed your tax liability. An unused general business tax credit can be carried forward to a later year.

New Clean Vehicle Tax Credit

A personal or a general business tax credit of up to $7,500 is available for the purchase of a new clean vehicle meeting certain requirements (including weighing less than 14,000 pounds).

A credit of $3,750 is available if a critical minerals requirement is met, and a credit of $3,750 is available if a battery components requirement is met. Fuel cell vehicles that have final assembly within North America can qualify for the $7,500 credit without regard to these two requirements. The credit is not available for vehicles with a manufacturer's suggested retail price higher than $80,000 for vans, sports utility vehicles, and pickups, or $55,000 for other vehicles. You can check the eligibility of vehicles for the credit at fueleconomy.gov.

The credit is generally not available if the purchaser's modified adjusted gross income for the taxable year or the preceding taxable year (whichever is less) exceeds $150,000 ($300,000 for joint filers and surviving spouses, $225,000 for heads of households). The income limitation does not apply to corporations subject to the corporate income tax. In the case of a partnership or S corporation, the credit is allocated to the partners or shareholders, respectively, and the income limitation is applied to those individuals.

Qualified Commercial Clean Vehicles Tax Credit

A general business tax credit of up to $7,500 ($40,000 if the vehicle weighs 14,000 or more pounds) is available for the purchase of a qualified commercial clean vehicle meeting certain requirements.

The credit is equal to the lesser of (a) 15% of the tax basis (generally, the purchase price) of the vehicle (30% if the vehicle is not powered by a gasoline or diesel internal combustion engine), or (b) the incremental cost of the vehicle (the excess of the purchase price of the clean vehicle over the price of a comparable vehicle that is powered solely by a gasoline or diesel internal combustion engine).
