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Hello everyone,

With fall already underway, we hope you and your family enjoy a break from the heat soon. Our hearts go out to anyone affected by Hurricane Helene and the fires in Southern California.

We are keeping a watchful eye on federal reserve meetings and the election. If you have any questions about how they may affect your financial plan, we are always available to talk.

Matt, Dan, and Karisa

"Success is the sum of small efforts repeated day in and day out." – Robert Collier

Bon Voyage!

With the COVID pandemic receding in most areas of the world, Americans are traveling again. U.S. citizens took more than 98 million international trips in 2023, just short of the pre-pandemic level of 99 million in 2019 and almost three times higher than the 33 million low in 2020. Here are the regions they visited.



Source: National Travel and Tourism Office, 2024

Thinking of Selling Your Home? Don't Be Surprised by Capital Gains Taxes

The Taxpayer Relief Act of 1997 provided homeowners who sell their principal residence an exclusion from capital gains taxes of \$250,000 for single filers and \$500,000 for joint filers. At that time, the average price of a new home was about \$145,000, so this exclusion seemed generous and allowed more Americans to move freely from one home to another.¹ Unfortunately, the exclusion was not indexed to inflation, and what seemed generous in 1997 can be restrictive in 2024.

Capital gains taxes apply to the profit from selling a home, so they may be of special concern — and potential surprise — for older homeowners who bought their homes many years ago and might yield well over \$500,000 in profits if they sell. In some areas of the country, a home bought for \$100,000 in the 1980s could sell for \$1 million or more today.² At a federal tax rate of 15% or 20% (depending on income) plus state taxes in some states, capital gains taxes can take a big bite out of profits when selling a home. Fortunately, there are some things you can do to help reduce the taxes.

Qualifying for exclusion

In order to qualify for the full exclusion, you or your spouse must own the home for at least two years during the five-year period prior to the home sale. You AND your spouse (if filing jointly) must live in the home for at least two years during the same period. The exclusion can only be claimed once every two years. There are a number of exceptions, including rules related to divorce, death, and military service. If you do not qualify for the full exclusion, you may qualify for a partial exclusion if the main reason for the home sale was a change in workplace location, a health issue, or an unforeseeable event.

Increasing basis for lower taxes

The capital gain (or loss) in selling a home is determined through a two-part calculation. First, the selling price is reduced by direct selling costs, including certain fees and closing costs, real estate commissions, and certain costs that the seller pays for the buyer. (The amount of any mortgage pay-off is not relevant for determining capital gains.) This yields the *amount realized*, which is then reduced by the *adjusted basis*.

The basis of your home is the amount you paid for it, including certain costs related to the purchase, plus the costs of improvements that are still part of your home at the date of sale. In general, qualified improvements include new construction or remodeling, such as a room addition or major kitchen remodel, as well as repair-type work that is done as part of a larger project. For example, replacing a broken window would not increase your basis, but replacing the window as part of a project that includes replacing all

windows in your house would be eligible. This basis is adjusted by adding certain payments, deductions, and credits such as tax deductions and insurance payments for casualty losses, tax credits for energy improvements, and depreciation for business use of the home. (See hypothetical example.)

Hypothetical Example

Pete and Joanne purchased their home for \$100,000 in 1985 and sold it for \$800,000 in 2024. This is how their capital gains might be calculated.

Capital gains	Basis
\$800,000 sales price	\$100,000 purchase price
– \$50,000 direct selling costs	+ \$8,000 purchase costs
\$750,000 amount realized	+ \$52,000 improvements
– \$150,000 adjusted basis	\$160,000 total basis
\$600,000 capital gain	– \$10,000 solar energy credit
– \$500,000 capital gains exclusion	\$150,000 adjusted basis
\$100,000 taxable gains	

At a 15% rate — which applies to most taxpayers — this would cost \$15,000 in federal capital gains taxes.

This hypothetical example of mathematical principles is for illustration purposes only. Actual results will vary.

Inheriting a home

Upon the death of a homeowner, the basis of the home is *stepped up* (increased) to the value at the time of death, which means that the heirs will only be liable for future gains. In community property states, this usually also applies to a surviving spouse. In other states, the basis for the surviving spouse is typically increased by half the value at the time of death (i.e., the value of the deceased spouse's share).

Determining the capital gain on a home sale is complex, so be sure to consult your tax professional. For more information, see IRS Publication 523 *Selling Your Home*.

1) U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis, 2024

2) CNN, January 29, 2024

It's Complicated: Inheriting IRAs and Retirement Plans

The SECURE Act of 2019 dramatically changed the rules governing how IRA and retirement plan assets are distributed to beneficiaries. The new rules, which took effect for account owner deaths occurring in 2020 or later, are an alphabet soup of complicated requirements that could result in big tax bills for many beneficiaries.

RMDs and RBDs

IRA owners and, in most cases, retirement plan participants must start taking annual required minimum distributions (RMDs) from their non-Roth accounts by April 1 following the year in which they reach RMD age (see table). This is known as their required beginning date (RBD).

Likewise, beneficiaries must take RMDs from inherited accounts (including, in most cases, Roth accounts). The timing and amount of an individual beneficiary's RMDs depend on several factors, including the relationship of the beneficiary to the original account owner and whether the original owner had reached the RBD.

Three key points apply to both owners and beneficiaries: (1) individuals must pay income taxes on the taxable portion of any distribution, (2) the larger the RMD, the higher the potential tax burden, and (3) failing to take the required amount generally results in an additional excise tax.¹

Date of birth	RMD age
Before July 1, 1949	70½
July 1, 1949, through 1950	72
1951 to 1959	73
1960 or later	75

The age that determines an account owner's RBD depends on the account owner's date of birth.

Spouse as sole beneficiary

Spouses who are sole beneficiaries have the most options for managing inherited accounts. By default, a surviving spouse beneficiary is treated as what's known as an eligible designated beneficiary (EDB) with certain advantages (see next section, "EDBs and DBs"). And if the deceased spouse died before the RBD, a surviving spouse EDB who is the sole owner can wait until the year the deceased would have reached RMD age to begin distributions.

Alternatively, a surviving spouse who is the sole owner can generally roll over the inherited account to their own account or elect to be treated as the account owner (rather than as an EDB). In these cases, the rules for account owners would apply. However, there is a potential drawback to this move: if the surviving spouse is younger than 59½, a 10% early distribution penalty may apply to subsequent withdrawals unless an exception applies.

EDBs and DBs

The SECURE Act separated other individual beneficiaries into two groups: EDBs and designated beneficiaries (DBs). EDBs are spouses and minor children of the deceased, those who are not more than 10 years younger than the deceased, and disabled and chronically ill individuals. DBs are essentially everyone else, including adult children and grandchildren.

EDBs have certain advantages over DBs. If the account owner dies before the RBD, an EDB is able to spread distributions over their own life expectancy. If the account owner dies on or after the RBD, an EDB may spread distributions over either their own life expectancy or that of the original account owner, whichever is more beneficial.²

By contrast, DBs are required to liquidate inherited assets within 10 years, which could result in unanticipated and hefty tax bills. If the account owner dies before the RBD, the beneficiary can leave the account intact until year 10. If the owner dies on or after the RBD, a DB must generally take annual RMDs based on their own life expectancy in years one through nine, then liquidate the account in year 10.

Other considerations

Work-sponsored retirement plans are not required to offer all distribution options; for example, an EDB may be required to follow the 10-year rule. However, both EDBs and DBs may roll eligible retirement plan assets into an inherited IRA, which may offer more options for managing RMDs.

This is just a broad overview of the complicated new rules as they apply to individual beneficiaries. If an account has multiple designated beneficiaries, or if a beneficiary is an entity such as a trust, charity, or estate, other rules apply. Beneficiaries should seek the assistance of an estate-planning attorney before making any decisions.

1) The IRS has waived this tax as it applies to the DB 10-year rule through 2024.

2) An inherited account must be liquidated 10 years after an EDB dies or a minor child EDB reaches age 21.

Birthday Benefits Quiz

Remember when you turned 16 and rushed to get your driver's license? Or earned the right to vote at 18 and enjoyed the privileges and responsibilities of adulthood at 21? There aren't many legal changes associated with birthdays after that until you turn 50, and then there are plenty.

Can you match these ages to the related federal benefits and tax responsibilities? One age will be used twice.

50 55 59½ 62 65 67 70 73 75

___ 1. Eligible for full Social Security benefits for those born in 1960 or later

___ 2. Earliest age to make catch-up contributions to a traditional IRA or an employer-sponsored retirement plan

___ 3. Eligible for maximum Social Security benefit

___ 4. Must begin taking required minimum distributions from most tax-deferred retirement plans, for those born from 1951 to 1959

___ 5. Eligible to enroll in Medicare

___ 6. Earliest age to make catch-up contributions to a health savings account

___ 7. Earliest eligibility age to begin taking reduced Social Security worker benefits

___ 8. Must begin taking required minimum distributions from most tax-deferred retirement plans, for those born in 1960 or later

___ 9. Eligible to withdraw money from a tax-deferred IRA or employer-sponsored retirement plan (for most employees) without incurring a 10% federal tax penalty

___ 10. Eligible to withdraw money from a tax-deferred employer-sponsored retirement plan without incurring a 10% federal tax penalty, for an employee who separates from service with the employer

For further information, visit [irs.gov](https://www.irs.gov), [socialsecurity.gov](https://www.socialsecurity.gov), and [medicare.gov](https://www.medicare.gov).

Answers

1. 67; 2. 50; 3. 70; 4. 73; 5. 65; 6. 55; 7. 62; 8. 75; 9. 59½; 10. 55 (50 or after 25 years of service for qualified public safety employees)

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