**Tax Fact Online Emails September – November**

**September**

**09/03/2014**

Section 529 college savings plans—known as "529 plans"—have often been marketed to clients as attractive investment vehicles designed to help cover the rising costs of college tuition on a tax-preferred basis.

Unfortunately, not all 529 plans are created equally, which has left many advisors today faced with clients who are increasingly dissatisfied with the performance of these seemingly appealing accounts. While helping a client escape from an unsatisfactory 529 plan can prove tricky, it is by no means impossible—but it's critical that the advisor understand the specific rules that apply in changing 529 plans in order to correct a client's college savings trajectory—without falling prey to taxes and penalties.

To learn more about helping clients with unsatisfactory 529 plans, click here.

**09/10/2014**

In the "Practice Points" section of Tax Facts Online, we discuss how annually renewable term life insurance can be an ideal option for dealing with uncertain risks of temporary duration. The problem is that most term policies are issued for periods of five to thirty years in five-year increments. This approach to policy design does not most efficiently address the needs of those customers that face risks that are not matched to a period of five years or multiples thereof.

To read about examples where annually renewable term insurance can be a perfect fit for common, real life situations, click here.

**09/17/2014**

Fixed annuities have taken the market by storm this year, as carriers have responded to growing client demand for financial products that provide a guaranteed level of income. Much of this growth, however, has been driven by a new crop of fixed indexed annuity products that have been designed to allow clients to participate in gains generated within the wider investment markets.

A hybrid fixed indexed annuity—while known by a variety of names throughout the market—is essentially a type of fixed indexed annuity that ties the potential for participation in market gains to more than one index. While the traditional fixed indexed annuity bases the performance of the annuity upon one major index (usually a stock index, such as the S&P 500), the hybrid fixed indexed annuity is able to allocate the risk of loss—and maximize the potential for gain—by combining multiple indices.

To learn more about hybrid fixed indexed annuities and how they work, click here.

**09/24/2014**

In a pair of recently decided private letter rulings, the IRS unexpectedly blessed tax-free rollover treatment in situations where spouses inherited IRAs that did not actually designate them as beneficiaries. The rulings were surprising because, in completing the rollovers, these IRA funds passed through trusts that did not technically allow for the tax-free rollover treatment.

While favorable rulings preserved the valuable IRA tax deferral for these surviving spouses, the results were by no means guaranteed. The inconvenience of obtaining IRS rulings could also have been avoided entirely had the taxpayers in these cases planned properly in the first place.

To learn more about these recent rulings and how to avoid problems with the IRS in regard to spousal inherited IRAs, click here.

**October**

**10/01/2014**

The IRS has recently cleared the pathway for high-income clients looking to maximize the value of their employer-sponsored retirement plan assets. The new rules change the way that after-tax retirement plan assets are treated upon distribution, providing flexibility and certainty for clients whose accounts contain both pre-tax and after-tax contributions.

By allowing pre-tax and after-tax contributions to be distributed to the most appropriate retirement income planning vehicles with ease, the new IRS rules remove the complexities that previously discouraged clients seeking to maximize the value of these contributions—and eliminate the tax liability that accompanied a split distribution in the process.

To learn more about the new rules on split 401(K) rollovers, click here.

**10/8/2014**

While most advisors would typically counsel their clients to delay collecting Social Security for as long as possible in order to maximize the eventual benefit level, even the most prepared clients can find themselves facing unanticipated challenges—and expenses—once they actually reach retirement.

Any client who has deferred collection of Social Security benefits past full retirement age is eligible to collect up to six months’ worth of retroactive benefits if the client changes his or her mind .  What most clients don’t know, however, is that they could be eligible to claim *all* retroactive benefits that would have been paid had the initial receipt of benefits not been deferred.

In order to fully undo a client’s decision to delay Social Security benefits, the client must have used a strategy known as “file and suspend” in which case the client is eligible to claim benefits retroactively for the entire period when benefits were suspended.

To learn more about the “file and suspend” strategy in regard to Social Security benefits, click here.

**10/15/2014**

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**10/22/2014**

Complex rules governing Medicare income-based premium surcharges can increase higher income clients' health insurance costs by more than 200 percent during retirement—but even middle class clients may now be in for a big surprise when they see their monthly Medicare costs.

Fortunately, there are ways to alter a client's investment mix to generate income that is excluded from Medicare's income calculation—but because Medicare looks to income earned prior to retirement in determining whether the surcharge applies, the time to plan is now.

To find out more about planning techniques that can be used to avoid Medicare surcharges, click here.

**10/29/2014**

The IRS has cleared the path for 401(k) sponsors who wish expand clients’ use of longevity insurance within 401(k)s by allowing target date funds (TDFs) to include deferred annuities—even for those plan participants who do not actively manage their investment allocations.

 While the Treasury emphasized its commitment to encouraging taxpayers to secure guaranteed lifetime income sources by finalizing the rules governing the inclusion of deferred annuities within retirement plans earlier this year, these products have yet to gain traction with the average client.  This is largely because, while the 401(k) is widely accessible, many plan sponsors have yet to include deferred annuities among their investment options.

 By removing the existing barriers, the IRS has now paved the way for plan sponsors to incorporate deferred annuities—without violating the previously existing rules—making it very likely that the prevalence of these products is about to explode.

To learn more about deferred annuities in 401(K) plans, click here.

**November**

**11/5/2014**

The two options for disposing of a life insurance contract are usually to surrender it or sell it. Either way, consideration must be given to determining whether there is a gain on the contract for income tax purposes.

That calculation requires figuring the difference between what the policy holder received and what they are deemed to have given for the contract. In the latter regard, what is considered to have been given depends upon whether the transaction is a surrender governed by IRC § 72 or a sale covered by § 1001.

To learn more about the differences in tax calculation between the two methods, click here.

**11/12/2014**

Savings withdrawal sequencing during retirement is an issue that will consistently be important for every client. Clients who have been well-advised will typically find themselves holding a variety of savings vehicles as they approach retirement—tax-deferred and Roth accounts designed to take advantage of government sponsored tax-preferred growth and taxable accounts that may be geared toward ensuring liquidity or pursuing more aggressive earnings strategies. In all of these cases, upon retirement, the client will be forced to choose which sources to deplete first.

To learn about guiding principles in advising clients about the sequencing of withdrawal of retirement funds, click here.

**11/19/2014**

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**11/26/2014**

Medicaid compliant annuities can play an important role in long-term care planning for many married clients—but in recent years, restrictive state and local policies have often prevented clients from fully taking advantage of these federally regulated products.

Because a Medicaid compliant annuity is often the only means by which a healthy client is able to secure a stable income stream once his or her spouse requires state-sponsored Medicaid assistance, state-imposed restrictions in this area can force a Medicaid-reliant client into poverty.

To learn how it has become easier to make Medicaid compliant annuities part of your clients long-term care planning, click here.