James V Sadrianna, PA
James Sadrianna, CPA
CPA
7441 Haddington Cove
Lakewood Ranch, FL 34202
407-810-8595
james@jamesvsadriannapa.net
jamesvsadriannapa.com

James V Sadrianna, PA - Client Newsletter - September 27, 2023

Table of Contents

Why Are We Facing a Government Shutdown? And What Happens if We Have One? 3

Claiming the Home Energy Audit Tax Credit 6

U.S. Economy: Soft Landing or Delayed Recession? 7

Transformative Tech: Will AI Upend the American Workforce? 9

Watch Out for Student Loan Repayment Scams 11

RMD Relief and Guidance for 2023 12

2024 Key Numbers for Health Savings Accounts 14

Department of Education Launches New SAVE Income-Driven Repayment Plan 15

The effects of a government shutdown depend on its length, and fortunately, most are short. However, the most recent shutdown, which lasted 35 days in December 2018 and January 2019, demonstrates some potential consequences of an extended closure.

Why Are We Facing a Government Shutdown? And What Happens if We Have One?

As September comes to a close, the U.S. government seems headed for a shutdown, which would begin on October 1. Although it is possible that a last-minute agreement could keep the lights on, that becomes less likely with each passing day. Here's a look at the federal funding process, the current situation in Congress, and the potential consequences of a failure to fund government operations.

Twelve appropriations bills

The federal fiscal year begins on October 1, and under normal procedures 12 appropriations bills for various government sectors should be passed by that date to fund activities ranging from defense and national park operations to food safety and salaries for federal employees.

These appropriations are considered discretionary spending, meaning that Congress has flexibility in setting the amounts. Although discretionary spending is an ongoing source of conflict, it accounted for only 27% of federal spending in FY 2023, and almost half of that was for defense, which is typically less of a point of conflict. Mandatory spending (including Social Security and Medicare), which is required by law, accounted for about 63%, and interest on the federal debt accounted for 10%.[1]

Obviously, it would be helpful for federal agencies to know their operating budgets in advance of the fiscal year, but all 12 appropriations bills have not been passed before October 1 since FY 1997. In 11 of the last 13 years, lawmakers have not passed a single spending bill in time.[2] That is the situation as of September 27 this year. (One bill, to fund military construction and the Department of Veterans Affairs, has been passed by the House but not the Senate.)[3]

Continuing resolutions and omnibus spending bills

To buy time for further budget negotiations, Congress typically passes a continuing resolution, which extends federal spending to a specific date, generally at or based on the same level as the previous year. These bills are essentially placeholders that keep the government open until full-year spending legislation is enacted. Since 1998, it has taken an average of almost four months after the beginning of the fiscal year for that year's final spending bill to become law.[4]

Even with the extension provided by continuing resolutions, Congress seldom passes the 12 appropriations bills. Instead, they are often combined into massive omnibus spending bills that may include other provisions that do not affect funding. For example, the SECURE 2.0 Act, which fundamentally changed the retirement savings rules, was included in the omnibus spending bill for FY 2023, passed in late December 2023, almost three months into the fiscal year.

Current Congressional situation

The U.S. Constitution gives the House of Representatives sole power to initiate revenue bills, so the House typically passes funding legislation and sends it to the Senate. There are often conflicts between the two bodies, especially when they are controlled by different parties, as they are now. These conflicts are typically settled through negotiations after a continuing resolution extends the budget process.

In a reversal of the typical process, the Senate acted first this year, releasing bipartisan legislation on September 26 that would maintain current funding through November 17 and provide additional funding for disaster relief and the war in Ukraine. Although this is likely to pass the Senate later in the week, it was unclear how the House would react to the legislation.[5]

Late on September 26, the House cleared four appropriation bills for debate (Agriculture, Defense, Homeland Security, and State Department). It is unknown whether these bills will pass the House, and if they do, it will be too late to negotiate the provisions with the Senate. A proposed continuing resolution that would extend government funding and include new provisions for border security had not been cleared for debate as of the afternoon of September 27.[6]

Effects of a shutdown

The effects of a government shutdown depend on its length, and fortunately, most are short. There have been 20 shutdowns since the current budget process began in the mid-1970s, with an average length of eight days. The longest by far was the most recent shutdown, which lasted 35 days in December 2018 and January 2019, and demonstrates some potential consequences of an extended closure.[7] However, in 2018-19, five of the 12 spending bills had already passed before the shutdown — including large agencies like Defense, Education, and Health & Human Services — which helped limit the damage. The current

impasse, with no appropriations passed, could lead to an even more painful situation.[8]

First some things that will not be affected: The mail will be delivered. Social Security checks will be mailed. Interest on U.S. Treasury bonds will be paid.[9] However, some programs will stop immediately, including the Supplemental Nutrition Program for Women, Infants, and Children, which helps to provide food for about 7 million low-income mothers and children.[10]

Federal workers will not be paid. Workers considered "essential" will be required to work without pay, while others will be furloughed. Lost wages will be reimbursed after funding is approved, but this does not help lower-paid employees who may be living paycheck to paycheck.[11] In an extended shutdown, the greatest hardship would fall on lower-paid essential workers, which would include many military families. Furloughed workers would struggle as well, but they might look for other jobs, and in many states would be able to apply for unemployment benefits.[12] (Members of Congress, who are paid out of a permanent appropriation that does need renewal, would continue to be paid.)[13]

Air travel could be affected. In 2019, absenteeism more than tripled among Transportation Security Administration (TSA) workers, resulting in long lines, delays, and gate closures at some airports. According to the TSA, many workers took time off for financial reasons.[14] Air traffic controllers, who are better paid, remained on the job without pay and without normal support staff. However, on January 25, 2019, an increase in absences by controllers temporarily shut down New York's La Guardia airport and led to substantial delays at airports in Newark, Philadelphia, and Atlanta. This may have been an impetus to reopen the government later that day.[15]

Unlike federal employees, workers for government contractors are not guaranteed to be paid, and contractors often work side-by-side with federal employees in government agencies. In 2019, it was estimated that 1.2 million contract employees faced lost or delayed revenue of more than $200 million per day.[16] A more widespread shutdown would put even more workers at risk.

While essential workers will maintain some federal services, furloughed workers would leave significant gaps. At this time, it's unknown exactly how each agency will respond to a shutdown. In 2019, some national parks used alternate funding to maintain limited access, which caused problems with trash and vandalism and was deemed illegal by the Government Accounting Office. This year, all parks might be closed during an extended shutdown.[17] Many other federal services may be delayed or suspended, ranging from food inspections to small business loans and economic reports.[18] Delays in economic statistics could make it more difficult for the Federal Reserve to judge appropriate policy.[19]

Although a shutdown would cause temporary hardship for workers and the citizens they serve, the long-term effect on the economy would be relatively benign, because lost payments are generally made up after spending is authorized. A shutdown might decrease gross domestic product (GDP) for the fourth quarter of 2023, but if the shutdown ends by the end of the year, GDP for the first quarter of 2024 would theoretically be increased. Even if delayed spending is recovered, however, lost productivity by furloughed workers will not be regained. And an extended shutdown could harm consumer and investor sentiment.[20]

Surprisingly, previous shutdowns generally have not hurt the broad stock market, other than short-term reactions. But the current market situation is delicate to begin with, and it is impossible to predict future market direction.[21]

For now, it's wise to maintain a steady course in your own finances. In the event of a shutdown, be sure to check the status of federal agencies and services that may affect you directly.

All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid. Projections are based on current conditions, subject to change, and may not come to pass.

1) Congressional Budget Office, May 2023

2, 4, 8) Pew Research Center, September 13, 2023

3) Committee for a Responsible Federal Budget, September 27, 2023

5, 6, 9, 18, 19) *The Wall Street Journal* , September 26, 2023

7, 11) CNN, September 21, 2023

10) MarketWatch, September 26, 2023

12) afge.org, September 25, 2023 (American Federation of Government Employees)

13) CBS News, September 25, 2023

14) Associated Press, January 21, 2019

15) *The Washington Post,* January 25, 2019

16) Bloomberg, January 17, 2019
17) Bloomberg Government, September 12, 2023
20) Congressional Research Service, September 22, 2023
21) *USA Today,* September 26, 2023

The IRS has announced guidance for the home energy audit tax credit.

Claiming the Home Energy Audit Tax Credit

When considering making energy-saving home improvements, it may be helpful to have a home energy audit done. Fortunately, there is a federal income tax credit available equal to 30% of the amount paid for home energy audits, up to $150 per tax year. (There are also credits available for many other energy-saving expenditures.) The IRS has now provided some guidance on what is required to claim the credit for a home energy audit.

Background

The credit for home energy audits is part of the energy efficient home improvement credit, which allows up to 30% of the sum of amounts paid for certain qualified expenditures. There are a couple of aggregate dollar limits for certain categories of expenses as well as specific dollar limits for certain types of costs. An annual $1,200 aggregate credit limit applies to all building envelope components, energy property, and home energy audits. Building envelope components include exterior doors, windows, and skylights, and insulation or air sealing materials or systems. Energy property includes certain central air conditioners, water heaters, furnaces, and hot water boilers. A separate annual $2,000 aggregate credit limit applies to electric or natural gas heat pump water heaters; electric or natural gas heat pumps; and biomass stoves and boilers.

There is also a residential clean energy property credit available for 30% of expenditures (with no overall dollar limit) for solar panels, solar water heaters, fuel cell property, wind turbines, geothermal heat pump property, and battery storage technology.

Home energy audit tax credit

As noted, the credit for home energy audits is limited to 30% of the cost of a home energy audit, up to $150 per year (30% of $500 would equal $150). It is also subject, along with building envelope components and energy property, to the annual $1,200 aggregate limit for certain items. If you claim the credit, the home energy audit should be kept as part of your tax records.

A home energy audit is an inspection and written report for a dwelling located in the United States. The home must be owned and used by the taxpayer as a principal residence and the audit must meet certain requirements.

- The audit must identify the most significant and cost-effective energy efficiency improvements, including an estimate of the energy and cost savings for each improvement.
- The inspection must be conducted or supervised by a qualified home energy auditor.*
- The written report must be prepared and signed by a qualified home energy auditor.
- The audit must be consistent with certain Department of Energy and industry guidelines.

The Department of Energy maintains a list of home energy auditor qualified certification programs at energy.gov.

*A home energy auditor is not required to be a qualified home energy auditor for audits conducted before January 1, 2024. For now, the credit can be claimed even if the auditor was not a qualified home energy auditor if the other requirements are met. The home energy audit tax credit cannot be claimed for home energy audits conducted after December 31, 2023, unless the audit is conducted by a qualified home energy auditor.

Although most current data indicates that inflation is cooling with a modest economic slowdown, it takes time for interest rate changes to work their way through the economy.

U.S. Economy: Soft Landing or Delayed Recession?

Economists have been predicting a recession for the U.S. economy ever since the Federal Reserve began aggressively raising interest rates in 2022. This is Econ 101. High interest rates, which make it more expensive to borrow, are intended to tame inflation by slowing business and consumer spending. A rapid and extreme increase in rates, as the Fed has carried out over the last year and a half, can be expected to slam the economy into reverse. The classic example is the early 1980s, when the Fed pushed the economy into a deep recession in order to stop runaway double-digit inflation.[1]

So far, the economy is proving resilient in the face of interest-rate pressure. Inflation, as measured by the 12-month change in the consumer price index (CPI), dropped from a high of 9.1% in June 2022 to 3.2% in July 2023. Growth in real gross domestic product (GDP) was a solid 2.1% in Q2 2023, and the August unemployment rate was 3.8%, up from 3.5% in July but still near a 50-year low.[2–3] These "headline" numbers suggest an economy coming in for a "soft landing" — a term for controlling inflation without serious economic damage. As with most headlines, however, the full story is more complex.

Long-term inflation prospects

Although consumers may notice the ups and downs of prices, the Fed is primarily concerned with controlling the longer-term inflationary trend. Its preferred measure is the price index for personal consumption expenditures (PCE), which captures a wider range of spending than the CPI, and the target for a healthy economy is PCE inflation of 2.0%. The 12-month change in the PCE price index was 3.3% in July 2023, down from a high of 7.0% in June 2022. The Fed also looks closely at "core" PCE, which excludes volatile food and energy prices and ran at a 4.2% 12-month rate in July. These numbers have trended downward over the last year, but they ticked upward in July and are still above the Fed's target. It remains to be seen whether further increases in interest rates will be necessary.[4]

A slower but sound labor market

Despite rising rates and predictions of a recession, businesses have continued to hire workers at a solid pace. The 187,000 jobs added in August was slower than post-pandemic job growth (over 200,000 jobs for 29 months) but a solid bounceback from lows of 105,000 in June and 157,000 in July.[5] Unlike typical recessions, when lower-paid workers are often the first to go, recent layoffs have tended to be in industries like finance and tech, where higher-paid workers typically have other job prospects and savings to maintain financial stability. Some analysts have called this a "richcession" (though the workers are hardly rich), and it may be dampening the effects of a jobs slowdown on the broader economy.[6]

Strong spending by businesses and consumers

Steady hiring is one indication that businesses are continuing to spend and expand. The Q2 GDP report also showed increased investments in equipment, nonresidential structures, and intellectual property.[7] All of these point to expectations of business growth. Many companies restructured their debt when interest rates were low, which has delayed the impact of higher borrowing costs, and may put off widespread effects for some time.[8]

Consumer spending accounts for two-thirds of GDP, and increased spending was a key contributor to Q2 GDP growth. Spending accelerated even further in July, increasing 0.8% over June — the largest month-over-month increase since January.[9] Like businesses, many consumers still carry debt with low interest rates, providing more discretionary income.[10] Spending may slow as pandemic-era savings dwindle and student loan payments resume, but a strong job market could help maintain consumer momentum.[11]

Expectations and the wage-price spiral

Two factors that can drive inflation are consumer expectations and the so-called wage-price spiral — when rapidly rising wages push demand and a willingness to pay higher prices, which leads to higher wages and more demand. Both of these seem to be settling. In a July 2023 survey, consumer expectations for inflation in one year dropped to 3.5% — the lowest since April 2021 — while expectations for three and five years dropped to 2.9%.[12] Average hourly earnings increased 4.3% for the 12-month period ending August 2023, higher than the rate of inflation but down from 5.4% a year earlier.[13]

Signs of trouble remain

Although most current data indicates that inflation is cooling with a modest economic slowdown, it takes

time for interest rate changes to work their way through the economy. Pessimists point to measures that suggest a recession may still be on the way. The Conference Board Leading Economic Index, a suite of 10 statistics that tend to rise and fall ahead of the broader economy, fell for the 16th straight month in July 2023.[14] The yield curve (yields of U.S. Treasury securities by maturity date) has been inverted since mid-2022, and the disparity between the 2-year and 10-year Treasuries, traditionally a sign of a coming recession, reached its most extreme inversion since 1981 in early July.[15]

More optimistic analysts suggest that these indicators may not apply to the current situation: a strong economy briefly derailed by the pandemic, with a big, fast bounceback and inflation due to supply-chain disruptions and pent-up demand. In this view, the economy is finding its footing after these extremes and may be poised for extended growth. Time will tell, but for now the predicted recession seems hard to find.

U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest, but their principal value fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid. Forecasts are based on current conditions, are subject to change, and may not come to pass.

1, 10) *The Wall Street Journal,* July 27, 2023

2, 5, 13) U.S. Bureau of Labor Statistics, 2023

3–4, 7, 9) U.S. Bureau of Economic Analysis, 2023

6) Associated Press, July 29, 2023

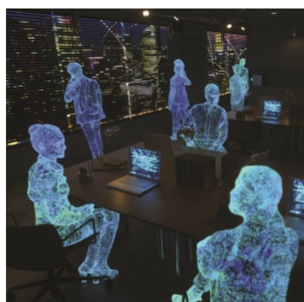
8) Insider, July 21, 2023

11) Reuters, August 15, 2023

12) Federal Reserve Bank of New York, August 14, 2023

14) The Conference Board, August 17, 2023

15) CNBC, July 7, 2023



Generative AI could complement two-thirds of jobs by helping workers complete tasks in less time.

Transformative Tech: Will AI Upend the American Workforce?

A chatbot with uncanny human-like writing abilities has become the poster child for artificial intelligence (AI) since it was released in late 2022, inspiring new levels of attention, excitement, and concern about recent advances in this life-changing technology.

As the race among tech companies to monetize AI picks up speed, it's worth considering how widespread adoption of AI-enabled technologies might affect the economic prospects of workers and businesses.

How AI changes the game

Artificial intelligence uses complex algorithms to sort through data to detect and react to patterns. This allows AI-enabled applications to "learn" from experience. As artificial intelligence has advanced and joined robots, sensors, and other technologies, many tasks have already been automated in ways that were once unimaginable. Smartphone apps map out the fastest routes from place to place and connect drivers-for-hire to people who need a ride. In some cities, driverless cars are being tested on the roads.

Generative AI is powered by large language models, which are deep learning algorithms trained with immense data sets to recognize, summarize, translate, and generate text. These models can create original content in response to questions posed by users, and millions of people are already using them to help write essays, articles, and business communications, code software applications, conduct scientific research, and even craft works of art such as illustrations, graphic designs, and music.[1]

A known flaw of generative AI systems is that they sometimes "hallucinate," or make up facts, when they can't find enough relevant data to inform a reasonable response. They can also perpetuate the biases of their human developers. But experts say performance can improve as software is "trained" over time.[2]

Productivity gains and job losses

Advances in technology and automation have been displacing workers for a long time, but the capabilities of generative AI suggest that many more human jobs — including those for skilled professionals — could be eliminated. And the people who still have their jobs will likely be expected to use AI-enabled tools to work faster and more efficiently.

When researchers used AI-powered models to assess the potential effects of generative AI on the workforce, they concluded that 80% of human workers would have at least 10% of their tasks affected, and 19% would have more than half of their tasks affected, which puts them at greater risk of being replaced.[3] The long list of occupations that are most exposed to advances in AI includes many types of knowledge workers, such as postsecondary teachers, analysts, lawyers, mathematicians, accountants, human resources specialists, sales representatives, journalists, and other communications professionals.[4]

By one estimate, generative AI could complement two-thirds of jobs by helping workers complete tasks in less time. Over the next decade, AI adoption could boost labor productivity by about 1.5% per year in the United States (to roughly double the current rate) and 1.4% globally. Productivity, or output per hour of work, is a good indicator of society's prosperity and economic well-being. A surge in productivity of this magnitude would also improve employers' profit margins and raise the world's gross domestic product by 7%, or about $7 trillion.[5]

However, if large-scale deployment of AI forces too many displaced workers into lower-paying jobs or out of the workforce completely, it could cause a downward spiral of reduced consumer spending that stifles economic growth.

It's also possible that obsolete jobs will be replaced with different types of work, similar to the way agricultural workers shifted into manufacturing and other new industries in the past. If productivity gains bring widespread prosperity, it could raise living standards for society overall. Workers would have more free time and money to spend on leisure pursuits.

Implications for investors

The expected cost savings and higher profit margins to be unlocked by productivity gains is one reason global corporate investment in AI was up from about $80 billion in 2018 to nearly $190 billion in 2022, even before generative AI burst onto the scene in 2023. Large tech companies are investing billions in their quest to integrate AI-enabled features into their existing products (such as social media platforms and search engines). Smaller start-ups are raising money from venture capitalists and working quickly to develop new business models.[6]

Speedy and successful implementation of AI systems could deliver a competitive advantage, and the prospects of companies that fail to deliver could suffer. Financial markets are likely to reward the winners and punish losers much like they did when other transformative technologies (such as personal computers, the internet, and smartphones) were invented.

Investors have been pouring money into the stocks of companies that they expect to profit from AI, which has helped drive the recent performance surge of large tech stocks.[7] But even if the hype around AI turns out to be warranted, investors should keep in mind that new technology ventures tend to be risky. Some AI projects may turn out to be viable and profitable, but many others could fail.

How dangerous could it be?

Some believe the rise of artificial intelligence will make it harder for people to make a living, leading to greater inequality and social unrest. But workforce disruption is not the only threat posed by AI. Another major concern is that bad actors could use deceptive images and video altered by AI (called deepfakes) to cause harm and/or spread misinformation, making it harder for the public to tell the difference between falsehoods and the truth. Even worse is the fear that AI might be used to design deadly weapons that fall into the wrong hands.

Industry leaders have testified before Congress about the potential benefits and dangers of AI, and lawmakers are currently discussing a framework for regulation, including the possibility of a new agency to monitor the industry, set up guardrails, and issue licenses for new AI platforms.[8] With AI advancing at a dizzying pace, policymakers may need to act quickly to keep up. And tomorrow's human workers may need to learn new skills more often — and be capable of adapting to change more quickly — than previous generations.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

1, 7) *The Wall Street Journal,* May 9, 2023

2) Axios, May 22, 2023

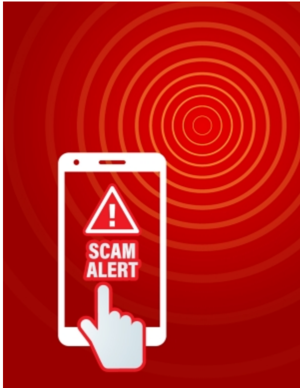
3) University of Pennsylvania, March 2023

4) Princeton, University of Pennsylvania, and New York University, March 18, 2023

5) Bloomberg, March 27, 2023

6) Artificial Intelligence Index Report, Stanford University, 2023

8) *The Wall Street Journal,* May 18, 2023



Watch Out for Student Loan Repayment Scams

This past June, the Supreme Court struck down President Biden's plan to cancel up to $20,000 in federal student loan debt for qualified borrowers. As a result, millions of student loan borrowers are scheduled to start paying back their loans in October after a three-and-a-half-year reprieve.

Fraudsters and scam artists have already begun to prey on vulnerable borrowers by posing as legitimate debt relief companies, promising to help them repay their loans. Many of them use aggressive tactics, make false claims, and charge unnecessary fees. If you are getting ready to repay your student loans, you may be contacted by companies offering to help you. Before you take action, here are some signs that you might be dealing with a student loan repayment scam.

Up-front or monthly fees

Student loan repayment scams often try to charge an up-front or monthly fee for programs that you can normally access for free. It's important to remember that you do not have to pay anyone to help you manage your student loans. Student loan forgiveness, discharge, consolidation, forbearance, and deferment are some of the free programs offered by most loan servicers.

High-pressure tactics

Some scam artists will use high-pressure tactics to try to get you to take advantage of an offer or program. They may instruct you to act immediately or say that your student loan has been flagged. They may even threaten you with legal action or wage garnishment. A legitimate company will never use these types of aggressive tactics or pressure you to act quickly when contacting you about your student loan repayment options.

Requests for personal and/or financial information

A scammer may ask you for personal and/or financial information, such as your Social Security or bank account number or your Federal Student Aid (FSA) login information. Never share your personal or financial information with anyone via email, text message, or over the phone.

False claims of affiliation

Scam artists may also falsely claim to be affiliated with your loan servicer or an official organization, such as the U.S. Department of Education. Never use the contact information provided in an email, text, or voice message from an unknown sender, because it may be tied to a scam. Only use the contact information that is provided on your loan servicer's website or billing statement.

Attempts to come between you and your loan servicer

Be wary of any company that attempts to come between you and your loan servicer. Scam artists may do this by instructing you to make your loan payments directly to them or by asking you to communicate with them instead of your loan servicer. Always refer to your loan servicer when making payments on your student loans and contact them directly with any questions about your loans or loan repayment.

If you are ever the victim of a student loan repayment scam, be sure to report it immediately to your student loan servicer, the Federal Trade Commission at ReportFraud.ftc.gov, and your state's attorney general.

Source: Consumer Financial Protection Bureau, 2022–2023

The IRS has announced certain relief and guidance for RMDs for 2023.

RMD Relief and Guidance for 2023

In early 2022, the IRS issued proposed regulations regarding required minimum distributions (RMDs) to reflect changes made by the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019. The IRS has held off on releasing final regulations so that it can address additional changes to RMDs made by the SECURE 2.0 Act of 2022, which was passed in late 2022. In the meantime, the IRS has issued interim RMD relief and guidance for 2023. Final RMD regulations, when issued, will not apply before 2024.

Relief with respect to change in RMD age to 73

The RMD age is the age at which IRA owners and employees must generally start taking distributions from their IRAs and workplace retirement plans, though an exception may apply if an employee is still working for the employer sponsoring the plan. (For Roth IRAs, RMDs are not required during the lifetime of the IRA owner.)

The SECURE 2.0 Act of 2022 increased the general RMD age from 72 to 73 (for individuals reaching age 72 after 2022). Since then, some individuals reaching age 72 in 2023 have taken distributions for 2023 even though they do not need to take a distribution until they reach age 73 under the changes made by the legislation.

Distributions from IRAs and workplace retirement plans can generally be rolled over tax-free to another retirement account within 60 days of the distribution. (RMD amounts cannot be rolled over.) The 60-day window for a rollover may already have passed for some individuals who took distributions that were not required in 2023.

To help those individuals, the IRS is extending the deadline for the 60-day rollover period for certain distributions until September 30, 2023. Specifically, the relief is available with respect to any distributions made between January 1, 2023, and July 31, 2023, to an IRA owner or employee (or the IRA owner's surviving spouse) who was born in 1951 if the distributions would have been RMDs but for the change in the RMD age to 73.

Tip: *Generally, only one rollover is permitted from a particular IRA within a 12-month period. The special rollover allowed under this relief is permitted even if the IRA owner or surviving spouse has rolled over a distribution in the last 12 months. However, making such a rollover will preclude the IRA owner or surviving spouse from rolling over a distribution in the next 12 months. (Note that an individual could still make direct trustee-to-trustee transfers since they do not count as rollovers under the one-rollover-per-year rule.)*

Inherited IRAs and retirement plans

RMDs for IRAs and retirement plans inherited before 2020 could generally be spread over the life expectancy of a designated beneficiary. The SECURE Act changed the RMD rules by requiring that in most cases the entire account must be distributed 10 years after the death of the IRA owner or employee if there is a designated beneficiary (and if death occurred after 2019). However, an exception allows an eligible designated beneficiary to take distributions over their life expectancy and the 10-year rule would not apply until after the death of the eligible designated beneficiary in that case.

Eligible designated beneficiaries include a spouse or minor child of the IRA owner or employee, a disabled or chronically ill individual, and an individual no more than 10 years younger than the IRA owner or

employee. The entire account would also need to be distributed 10 years after a minor child reaches the age of majority (i.e., at age 31).

The proposed regulations issued in early 2022 surprised many when they suggested that annual distributions are also required during the first nine years of such 10-year periods in most cases. Comments on the proposed regulations sent to the IRS asked for some relief because RMDs had already been missed and a 25% penalty tax (50% prior to 2023) is assessed when an individual fails to take an RMD.

The IRS has announced that it will not assert the penalty tax in certain circumstances where individuals affected by the RMD changes failed to take annual distributions in 2023 during one of the 10-year periods. (Similar relief was previously provided for 2021 and 2022.) For example, relief may be available if the IRA owner or employee died in 2020, 2021, or 2022 and on or after their required beginning date* and the designated beneficiary who is not an eligible designated beneficiary did not take annual distributions for 2021, 2022, or 2023 as required (during the 10-year period following the IRA owner's or employee's death). Relief might also be available if an eligible designated beneficiary died in 2020, 2021, or 2022 and annual distributions were not taken in 2021, 2022, or 2023 as required (during the 10-year period following the eligible designated beneficiary's death).

*The required beginning date is usually April 1 of the year after the IRA owner or employee reaches RMD age. Roth IRA owners are always treated as dying before their required beginning date.

2024 Key Numbers for Health Savings Accounts

The IRS recently released the 2024 contribution limits for health savings accounts (HSAs), as well as the 2024 minimum deductible and maximum out-of-pocket amounts for high-deductible health plans (HDHPs).

What is an HSA?

An HSA is a tax-advantaged account that enables you to save money to cover health-care and medical costs that your insurance doesn't pay. The funds contributed are made with pre-tax dollars if you contribute via payroll deduction or are tax deductible if you make them yourself using after-tax dollars. (HSA contributions and earnings may or may not be subject to state taxes.) Withdrawals used to pay qualified medical expenses are free from federal income tax.

You can establish and contribute to an HSA only if you are enrolled in an HDHP, which offers "catastrophic" health coverage and pays benefits only after you've satisfied a high annual deductible. Typically, you will pay much lower premiums with an HDHP than you would with a traditional health plan such as an HMO or PPO.

If HSA withdrawals are not used to pay qualified medical expenses, they are subject to ordinary income tax and a 20 percent penalty. When you reach age 65, you can withdraw money from your HSA for any purpose; such a withdrawal would be subject to income tax if not used for qualified medical expenses, but not the 20 percent penalty.

What's changed for 2024?

Here are the updated key tax numbers relating to HSAs for 2023 and 2024.

Health Savings Accounts	**2023**	**2024**
Annual contribution limit		
Self-only coverage	$3,850	$4,150
Family coverage	$7,750	$8,300
High-deductible health plan: self-only coverage		
Annual deductible: minimum	$1,500	$1,600
Annual out-of-pocket expenses required to be paid (other than for premiums) can't exceed	$7,500	$8,050
High-deductible health plan: family coverage		
Annual deductible: minimum	$3,000	$3,200
Annual out-of-pocket expenses required to be paid (other than for premiums) can't exceed	$15,000	$16,100
Catch-up contributions		
Annual catch-up contribution limit for individuals age 55 or older	$1,000	$1,000

Starting in July 2024, the SAVE Plan will allow borrowers with undergraduate loans to cap their monthly student loan payments at 5% of discretionary income, compared to 10% of discretionary income under the current REPAYE Plan.

Department of Education Launches New SAVE Income-Driven Repayment Plan

The Department of Education recently launched the most generous federal student loan income-driven repayment (IDR) plan to date — the Saving on a Valuable Education (SAVE) Plan. The SAVE Plan comes after the U.S. Supreme Court blocked federal student loan cancellation in June and before payments are set to restart in October after more than three years of payment pauses. The SAVE Plan will be implemented in phases, but eligible borrowers can sign up online now with a "beta version" of the application.

What should I know about the SAVE Plan?

The SAVE Plan is an income-driven repayment plan that calculates a borrower's monthly payment based on income and family size. It replaces the current Revised Pay As You Earn (REPAYE) Plan (which, before SAVE, was the most generous IDR plan).

The SAVE Plan includes multiple new benefits for borrowers, some of which take effect now and others that will take effect in July 2024 when the plan is fully implemented.[1]

Benefits that take effect now:

- The amount of income protected from loan payments under SAVE will increase from 150% of the federal poverty level to 225%. For a single borrower, this equates to earning less than $32,800 a year ($67,500 for a family of four). Borrowers under the threshold will have their loan payments set to $0.
- Unpaid monthly interest outside of a borrower's monthly payment will no longer accrue, so loan balances won't increase if borrowers make their monthly payments as required under SAVE (even in cases where a borrower's monthly payment is set to $0).
- Married borrowers who file their taxes separately will no longer be required to include their spouse's income in their payment calculation for SAVE. These borrowers will also have their spouse excluded from their family size when calculating payments.

Benefits that will take effect in July 2024:

- For undergraduate loans, monthly payments will be capped at 5% of discretionary income (compared to 10% of discretionary income under REPAYE), and graduate loans will be capped at 10% of discretionary income. Borrowers who have both undergraduate and graduate loans will pay a weighted average of between 5% and 10% of their income based on the original principal balances of their loans.
- For borrowers with original principal balances of $12,000 or less, remaining loan balances will be forgiven after 10 years of payments. For original loan balances over $12,000, the maximum repayment period will increase by one year for every additional $1,000 borrowed. For example, a $13,000 loan will be forgiven after 11 years of payments, a $14,000 loan will be forgiven after 12 years, and so on. (Under REPAYE, loan balances were forgiven after 20 years of payments.)

How do I enroll in SAVE?

There are different ways to enroll in the SAVE Plan.

- Borrowers who are already enrolled in the REPAYE plan will be automatically enrolled in the SAVE plan, and their monthly payments will be adjusted automatically with no action needed on their part.
- Borrowers who want to enroll in SAVE (or switch from another plan besides REPAYE) will need to log in to the federal student aid website to fill out an application. The application is estimated to take less than 10 minutes to complete, and borrowers will need their FSA ID, financial information, personal information, and spouse's information (if applicable). The current SAVE application is a beta version, but according to the Department of Education, borrowers who apply using the beta version will have their applications processed and will not need to resubmit another application later.
- Borrowers who are in default on their federal student loans will need to get their loans back in "good standing" before being eligible for SAVE. Default borrowers can do this through the government's Fresh Start Program.
- Borrowers who are enrolled in the Public Service Loan Forgiveness Program will have their remaining loan balances forgiven after 10 years, regardless of which IDR plan they are enrolled in.

For more information about the new SAVE Plan, and to see estimated monthly payments based on income and family size, visit the federal student aid website.

1) U.S. Department of Education, 2023

IMPORTANT DISCLOSURES Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, legal, or retirement advice or recommendations. The information presented here is not specific to any individual's personal circumstances. To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

Prepared by Broadridge Investor Communication Solutions, Inc. Copyright 2023

IMPORTANT DISCLOSURES Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, legal, or retirement advice or recommendations. The information presented here is not specific to any individual's personal circumstances. To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

James V Sadrianna, PA
James Sadrianna, CPA
CPA
7441 Haddington Cove
Lakewood Ranch, FL 34202
407-810-8595
james@jamesvsadriannapa.net
jamesvsadriannapa.com

Prepared by Broadridge Investor Communication Solutions, Inc. Copyright 2023