AWM Financial Planning

Qualified 529 Expenses

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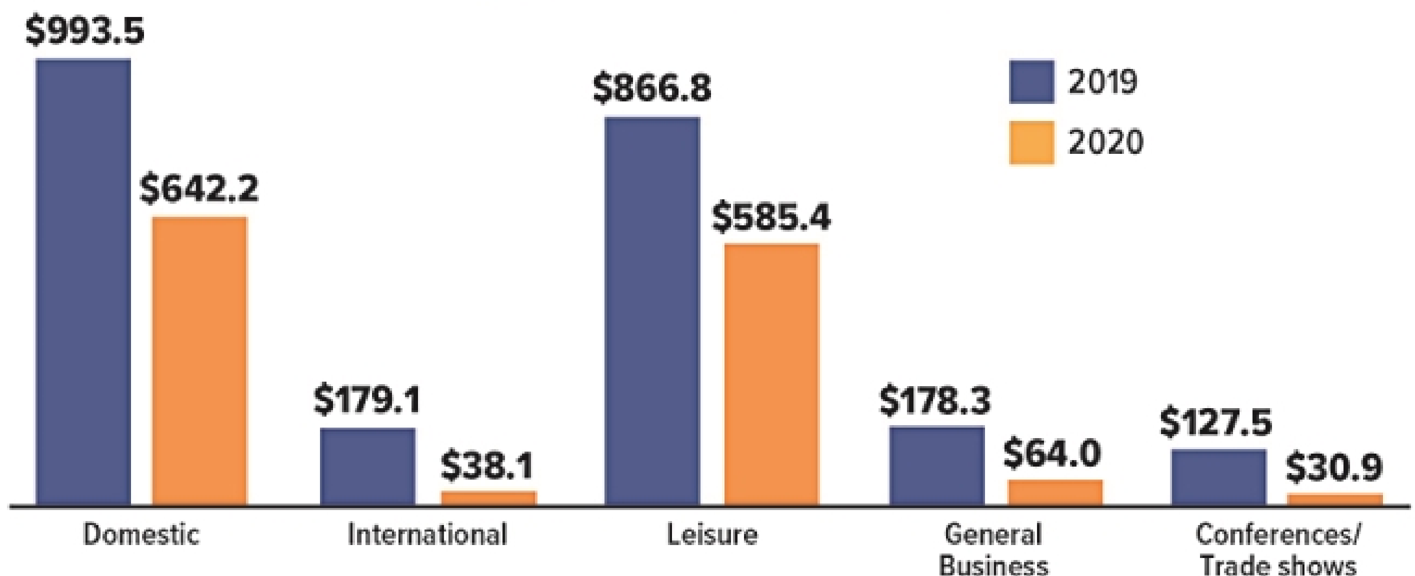
529 college savings plans are a great way to save for college and have improved with recent legislation. Following are 529 qualified expenses:
*Tuition and fees for attending a qualified education institution.
*Room and board for a student enrolled at least half-time. Expenses are limited to the actual cost if the student lives in university housing, or if living off-campus, expenses are limited to the allowance in the institution's financial aid calculation.
*Lab fees, course books, and equipment that are necessary and paid to the institution. Computers and software used by the beneficiary while attending the institution.
*Up to $10,000 per year, per beneficiary for the cost of public, private, or parochial K-12 education.
*Tuition and expenses for apprenticeship programs.
*Up to $10,000 to pay for student debt of the beneficiary, as well as up to $10,000 per sibling for each of the beneficiary's siblings.
Give AWM a call to discuss your specific situation and let us be a resource!

COVID-19 Left the U.S. Travel Industry Reeling

The U.S. travel industry's total economic output plummeted 42% in 2020. A full 65% of all jobs lost in the United States were those supported by the travel industry. Perhaps unsurprisingly, the hardest-hit areas were business travel, particularly spending related to conferences, conventions, and trade shows, as well as international travel.

Federal, state, and local government coffers were also strained, as travel-related taxes fell by 34%.

Total travel spending in the United States, accounting for both domestic and international travelers, is expected to rise by 23.6% in 2021.



Source: U.S. Travel Association, 2021

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Tips for Managing an Inheritance

As the beneficiary of an inheritance, you are most likely to be faced with making many important decisions during an emotional time. Short of meeting any required tax or legal deadlines, don't make any hasty decisions concerning your inheritance.

Identify a Team of Trusted Professionals

Tax laws and requirements can be complicated. Consult with professionals who are familiar with assets that transfer at death. These professionals may include an attorney, an accountant, and a financial and/or insurance professional.

Be Aware of the Tax Consequences

Generally, you probably will not owe income tax on assets you inherit. However, your income tax liability may eventually increase. Any income that is generated by inherited assets may be subject to income tax, and if those assets produce a substantial amount of income, your tax bracket may increase. This is particularly true if you receive distributions from a tax-qualified retirement plan such as a 401(k) or an IRA. You may need to re-evaluate your income tax withholding or begin paying estimated tax.

You also may need to consider the amount of potential transfer (estate) taxes that your estate may owe, due to the increase in the size of your estate after factoring in your inheritance. You may need to consider ways to help reduce these potential taxes.

How You Inherit Assets Makes a Difference

Your inheritance may be received through a trust or you may inherit assets outright. When you inherit through a trust, you'll receive distributions according to the terms of the trust. You may not have total control over your inheritance as you would if you inherited the assets outright.

Familiarize yourself with the trust document and the terms under which you are to receive trust distributions. You will have to communicate with the trustee of the trust, who is responsible for the administration of the trust and the distribution of assets according to the terms of the trust.

Even if you're used to handling your own finances, receiving a significant inheritance may promote spending without planning. Although you may want to quit your job, or buy a car, a house, or luxury items, this may not be in your best interest. Consider your future needs, as well, if you want your wealth to last. It's a good idea to wait at least a few months after inheriting money to formulate a financial plan. You'll want to consider your current lifestyle and your future goals, formulate a financial strategy to meet those goals, and determine how taxes may reduce your estate.

Receiving a significant inheritance may promote spending without planning, but don't make any hasty decisions.

Develop a Financial Plan

Once you have determined the value and type of assets you will inherit, consider how those assets will fit into your financial plan. For example, in the short term, you may want to pay off consumer debt such as high-interest loans or credit cards. Your long-term planning needs and goals may be more complex. You may want to fund your child's college education, put more money into a retirement account, invest, plan to help reduce taxes, or travel.

Evaluate Your Insurance Needs

Depending on the type of assets you inherit, your insurance needs may need to be adjusted. For instance, if you inherit valuable personal property, you may need to adjust your property and casualty insurance coverage. Your additional wealth from your inheritance means you probably have more to lose in the event of a lawsuit. You may want to purchase an umbrella liability policy that can help protect you against actual loss, large judgments, and the cost of legal representation. You may also need to recalculate the amount of life insurance you need because of your inheritance. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

Evaluate Your Estate Plan

Depending on the value of your inheritance, it may be appropriate to re-evaluate your estate plan. Estate planning involves conserving your money and putting it to work so that it best fulfills your goals. It also means helping reduce your exposure to potential taxes and creating a comfortable financial future for your family and other intended beneficiaries.

Some things you should consider are to whom your estate will be distributed, whether the beneficiary(ies) of your estate are capable of managing the inheritance on their own, and how you can best shield your estate from estate taxes. If you have minor children, you may want to protect them from asset mismanagement by nominating an appropriate guardian or setting up a trust for them. If you have a will, your inheritance may make it necessary to make significant changes to that document, or you may want to make an entirely new will or trust. There are costs and ongoing expenses associated with the creation and maintenance of trusts and wills. Consult with an estate planning attorney for proper guidance.

Child Tax Credit for 2021: Will You Get More?

If you have qualifying children under the age of 18, you may be able to claim a child tax credit. (You may also be able to claim a partial credit for certain other dependents who are not qualifying children.) The American Rescue Plan Act of 2021 makes substantial, temporary improvements to the child tax credit for 2021, which may increase the amount you might receive.

Ages of Qualifying Children

The legislation makes 17-year-olds eligible as qualifying children in 2021. Thus, children ages 17 and younger are eligible as qualifying children in 2021.

Increase in Credit Amount

For 2021, the child tax credit amount increases from $2,000 to $3,000 per qualifying child ($3,600 per qualifying child under age 6). The partial credit for other dependents who are not qualifying children remains at $500 per dependent.

Refundable Credit

The aggregate amount of nonrefundable credits allowed is limited to tax liability. With refundable credits, a taxpayer may receive a refund at tax time if they exceed tax liability. For most taxpayers, the child tax credit is fully refundable for 2021. To qualify for a full refund, the taxpayer (or either spouse for joint returns) must generally reside in the United States for more than one-half of the taxable year. Otherwise, under the pre-existing rules, a partial refund of up to $1,400 per qualifying child may be available. The credit for other dependents is not refundable.

Advance Payments

Taxpayers may receive periodic advance payments for up to one-half of the refundable child tax credit during 2021, generally based on 2020 tax returns. The U.S. Treasury will make the payments for periods between July 1 and December 31, 2021. For example, monthly payments could be up to $250 per qualifying child ($300 per qualifying child under age 6).

Phaseout of Credit

The combined child tax credit (the sum of your child tax credits and credits for other dependents) is subject to phaseout based on modified adjusted gross income (MAGI). Special rules start phasing out the increased portion of the child tax credit in 2021 at much lower thresholds than under pre-existing rules. The credit, as reduced under the special rules for 2021, is then subject to phaseout under the pre-existing phaseout rules.

Phaseout of Credit in 2021 Based on MAGI

Credit can be reduced to $2,000 per qualifying child, or $500 per other dependent, based on MAGI	
Single/Married filing separately	Over $75,000 to $200,000
Married filing jointly	Over $150,000 to $400,000
Head of household	Over $112,500 to $200,000

Credit can be reduced to $0, based on MAGI	
Single/Married filing separately	More than $200,000
Married filing jointly	More than $400,000
Head of household	More than $200,000

For 2021, there is no reduction in the credit if the taxpayer's MAGI does not exceed $75,000 ($150,000 for joint returns and surviving spouses, $112,500 for heads of households). The credit is partially phased out for MAGI exceeding these income limits. At this stage, the credit is reduced by the lowest of the following three amounts:

- $50 for each $1,000 (or fraction thereof) of MAGI exceeding these thresholds
- The total increase in the credit amounts for 2021 [e.g., if 3 qualifying children (2 under the age of 6), then $10,200 increased credit minus $6,000 pre-existing credit = $4,200 increase in credit]
- $6,250 ($12,500 for joint returns, $4,375 for heads of households, $2,500 for surviving spouses); these amounts are equal to 5% of the difference between the higher pre-existing phaseout thresholds and the special thresholds for 2021

The credit cannot be reduced below $2,000 per qualifying child or $500 per other dependent at this stage under this special rule for 2021.

However, the credit can be fully phased out for MAGI in excess of $200,000 ($400,000 for a joint return) under the pre-existing phaseout rules. The credit as reduced in the preceding stage is further reduced by $50 for each $1,000 (or fraction thereof) by which the taxpayer's MAGI exceeds these thresholds.

Signs of a Scam and How to Resist It

Although scammers often target older people, younger people who encounter scams are more likely to lose money to fraud, perhaps because they have less financial experience. When older people do fall for a scam, however, they tend to have higher losses.[1]

Regardless of your age or financial knowledge, you can be certain that criminals are hatching schemes to separate you from your money — and you should be especially vigilant in cyberspace. In a financial industry study, people who encountered scams through social media or a website were much more likely to engage with the scammer and lose money than those who were contacted by telephone, regular mail, or email.[2]

Here are four common practices that may help you identify a scam and avoid becoming a victim.[3]

Scammers pretend to be from an organization you know. They might claim to be from the IRS, the Social Security Administration, or a well-known agency or business. The IRS will never contact you by phone asking for money, and the Social Security Administration will never call to ask for your Social Security number or threaten your benefits. If you wonder whether a suspicious contact might be legitimate, contact the agency or business through a known number. Never provide personal or financial information in response to an unexpected contact.

Scammers present a problem or a prize. They might say you owe money, there's a problem with an account, a virus on your computer, an emergency in your family, or that you won money but have to pay a fee to receive it. If you aren't aware of owing money, you probably don't. If you didn't enter a contest, you can't win a prize — and you wouldn't have to pay for it if you did. If you are concerned about your account, call the financial institution directly. Computer problems? Contact the appropriate technical support. If your "grandchild" or other "relative" calls asking for help, ask questions only the grandchild/relative would know and check with other family members.

Scammers pressure you to act immediately. They might say you will "miss out" on a great opportunity or be "in trouble" if you don't act now. Disengage immediately if you feel any pressure. A legitimate business will give you time to make a decision.

Scammers tell you to pay in a specific way. They may want you to send money through a wire transfer service or put funds on a gift card. Or they may send you a fake check, tell you to deposit it, and send them money. By the time you discover the check was fake, your money is gone. Never wire money or send a gift card to someone you don't know — it's like sending cash. And never pay money to receive money.

For more information, visit consumer.ftc.gov/features/scam-alerts.

1, 3) Federal Trade Commission, 2020

2) FINRA Investor Education Foundation, 2019

IMPORTANT DISCLOSURES

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