Spring & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Tax & Business Alert

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ABLE ACCOUNTS HELP THOSE WITH DISABILITIES

There's a tax-advantaged way for people to save for the needs of family members with disabilities — without having them lose eligibility for government benefits to which they're entitled. It can be done through an Achieving a Better Life Experience (ABLE) account, which is a tax-free account that can be used for a variety of expenses.

ELIGIBILITY

ABLE accounts can be created by eligible individuals to support themselves, by family members to support their dependents, or by guardians for the benefit of the individuals for whom they're responsible.

Eligible individuals must be blind or disabled — and must have become so before turning age 26. They also must be entitled to benefits under the Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI) programs. Alternatively, an individual can become eligible if a disability certificate is filed with the IRS for him or her.

OTHER KEY FACTORS

Distributions from an ABLE account are tax-free if used to pay for expenses that maintain or improve the beneficiary's health, independence or quality of life. These expenses include education, housing, transportation, employment support, health and wellness costs, assistive technology, personal support services and other IRS-approved expenses.

Anyone can contribute to an ABLE account. While contributions aren't tax-deductible, account funds are invested and grow tax-free. If distributions are used for nonqualified expenses, the portion of the distribution that represents earnings on the account is subject to income tax plus a 10% penalty.

An eligible individual can have only one ABLE account. Contributions up to the annual gift-tax exclusion amount, $15,000 in 2020, may be made to an ABLE account each year for the benefit of an eligible person. Under a rule that took effect in 2018, if the beneficiary works, the beneficiary can also contribute part or all of their income to the account. (This additional contribution is limited to the federal poverty-line amount for a one-person household for the prior year.)

IMPACT ON SUPPLEMENTAL SECURITY INCOME

Achieving a Better Life Experience (ABLE) accounts have no impact on an individual's Medicaid eligibility. However, ABLE account balances in excess of $100,000 are counted toward the Supplemental Security Income (SSI) program's $2,000 individual resource limit.

Thus, an individual's SSI benefits are suspended, but not terminated, if his or her ABLE account balance exceeds $102,000 (assuming the individual has no other assets). In addition, distributions from an ABLE account to pay housing expenses count toward the SSI income limit.

There is, however, a limit on the total account balance. This limit, which varies from state to state, is equal to the limit imposed by that state on qualified tuition (Section 529) plans. For contributions made before 2026, the designated beneficiary can claim the saver's credit for contributions made to his or her ABLE account.

PLENTY OF OPTIONS

There are many choices. ABLE accounts are established under state programs, but an account may be opened under any state's program if the state allows out-of-state participants. Funds in an account can be invested in a variety of options and the account's investment directions can typically be changed up to twice a year. Contact us if you'd like more details about setting up or maintaining an ABLE account. ■

THE TAX IMPACT OF BUSINESS PROPERTY REMEDIATION

If your company faces the need to "remediate" or clean up environmental contamination, the money you spend can be tax-deductible as ordinary and necessary business expenses. Unfortunately, every type of environmental cleanup expense cannot be currently deducted — some cleanup costs must be capitalized (spread over multiple years for tax purposes).

Of course, to lower your tax bill as much as possible, you want to claim as many immediate income tax benefits as allowed for the expenses you incur. So, it's a good idea to explore the tax impact of business property remediation before you embark on the project. (If you've already done the cleanup, review the costs closely before filing your company's tax return.)

DEDUCT VS. CAPITALIZE

Generally, cleanup costs are currently deductible to the extent they cover "incidental repairs" — for example, encapsulating exposed asbestos insulation. Other deductible expenses may include the actual cleanup costs, as well as expenses for environmental studies, surveys and investigations, fees for consulting and environmental engineering, legal and professional fees, and environmental "audit" and monitoring costs.

You may also be able to currently claim tax deductions for cleaning up contamination that your business caused on your own property (for example, removing soil contaminated by dumping wastes from your own manufacturing processes and replacing it with clean soil) — if you acquired that property in an uncontaminated state.

On the other hand, remediation costs generally must be capitalized if the remediation:

- Adds significantly to the value of the cleaned-up property,
- Prolongs the useful life of the property, or
- Adapts the property to a new or different use.

In addition, you'll likely need to capitalize the costs if the remediation makes up for depreciation, amortization or depletion that's been claimed for tax purposes, or if it creates a separate capital asset that's useful beyond the current tax year.

However, parts of these types of remediation costs may qualify for a current deduction. It depends on the facts and circumstances of your situation. For instance, in one case, the IRS required a taxpayer to capitalize the costs of surveying for contamination various sites that proved to be contaminated, but the agency allowed a current deduction for the costs of surveying the sites that proved to be uncontaminated.

COMPLEX TREATMENT

Along with federal tax deductions, state or local tax incentives may be available for cleaning up contaminated property. The tax treatment for the expenses can be complex. If you have environmental cleanup expenses, we can help plan your efforts to maximize the deductions available. ■

CATCHING UP ON CATCH-UP CONTRIBUTIONS

When it comes to retirement planning, many people tend to focus on two things: opening a retirement savings account and then eventually drawing funds from it. However, there are other important aspects to truly doing everything you can to grow your nest egg.

One of them is celebrating your 50th birthday. This is because those age 50 or older on December 31 of any given year can start making "catch-up" contributions to their employer-sponsored retirement plans by that date (assuming the plan allows them). These are additional contributions to certain accounts beyond the regular annual limits.

Maybe you haven't yet saved as much for retirement as you'd like to. Or perhaps you'd just like to make the most of tax-advantaged savings opportunities. Whatever the case may be, now is a good time to get caught up on the latest catch-up contribution amounts.

401(K)s AND SIMPLEs

Under 401(k) limits for 2020, if you're age 50 or older, you can contribute an extra $6,500 after you've reached the $19,500 maximum limit for all employees. That's a total of $26,000. If your employer offers a Savings Incentive Match Plan for Employees (SIMPLE) instead, your regular contribution maxes out at $13,500 in 2020. If you're 50 or older, you're allowed to contribute an additional $3,000 — or $16,500 in total for the year. (Be sure to check with your employer because, while most 401(k) plans and SIMPLEs offer catch-up contributions, not all do.)

SELF-EMPLOYED PLANS

If you're self-employed, retirement plans such as an individual 401(k) — or solo 401(k) — also allow catch-up contributions. A solo 401(k) is a plan for those with no other employees. You can defer 100% of your self-employment income or compensation, up to the regular yearly aggregate deferral limit of $19,500, plus a $6,500 catch-up contribution in 2020. But that's just the employee salary deferral portion of the contribution.

You can also make an "employer" contribution of up to 20% of self-employment income or 25% of compensation. The total combined employee-employer contribution is limited to $57,000, plus the $6,500 catch-up contribution.

IRAs, TOO

Catch-up contributions to non-Roth accounts can not only enlarge your retirement nest egg, but also reduce your 2020 tax liability. And keep in mind that catch-up contributions are available for IRAs, too.

However, the deadline for 2020 contributions is April 15, 2021, and deductible contributions may be limited or unavailable based on your income and whether you're covered by a retirement plan at work. Please contact us for more information. ■

DO YOU KNOW THE "HIDDEN" ADVANTAGE OF HSAs?

A Health Savings Account (HSA) coupled with a high-deductible health plan can be a powerful tool for funding medical expenses on a tax-advantaged basis. For 2020, individuals with self-only coverage can make up to $3,550 in tax-deductible contributions to an HSA, while those with family coverage can contribute up to $7,100. These limits are increased by $1,000 for individuals 55 or older.

Funds may be withdrawn tax-free to pay qualified medical expenses. Once you reach age 65, you can withdraw funds penalty-free for any purpose (subject to tax if not used for qualified medical expenses).

But there's also a "hidden" advantage of HSAs, or at least one that many people overlook: These accounts can play a helpful role in your estate plan. HSAs have an advantage over traditional IRAs and 401(k) plans in that they're not subject to required minimum distributions at age 72. This means, to the extent you don't use the account for medical expenses, the account can continue growing on a tax-deferred basis indefinitely — providing valuable benefits for your loved ones.

If your spouse inherits the account, it will be treated as his or her own HSA. If someone else inherits it, the HSA will terminate and the recipient will be taxed on its value, less any qualified medical expenses of the decedent paid by the transferee within one year after the date of death. ■