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MONTHLY NEWSLETTER

CORBETT ROAD
WEALTH MANAGEMENT

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$28,026

Average out-of-pocket amount families spent on college in 2022-23, an 11% increase over the previous year.

Source: *How America Pays for College 2023, Sallie Mae*

16 million

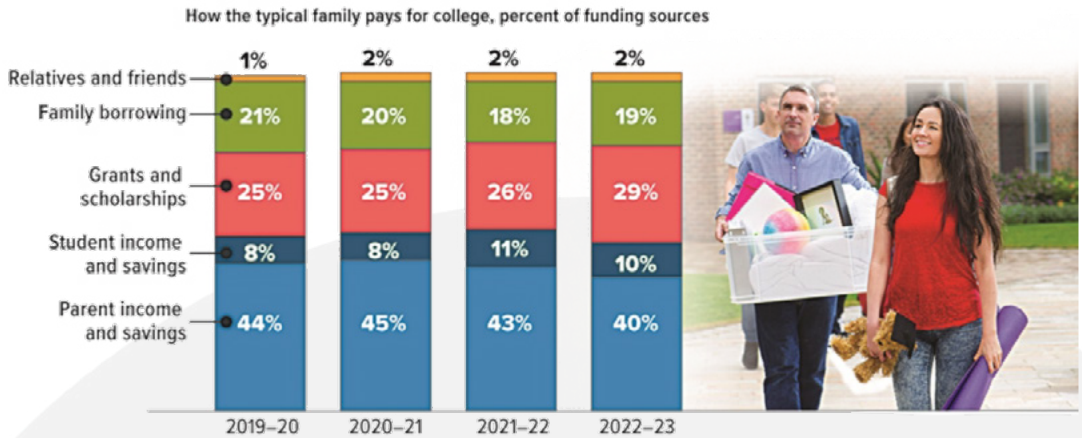
Number of U.S. millionaire households in 2022, up from 9.8 million in 2019.

Source: *The Wall Street Journal, October 27, 2023*

HOW THE TYPICAL AMERICAN FAMILY PAYS FOR COLLEGE

The typical family uses a combination of income, savings, grant aid, and loans to pay for college. For the past several years, income and savings from parents and students have consistently covered about half of the total cost, with grant aid covering about one quarter of the total cost and loans covering most of the remainder.

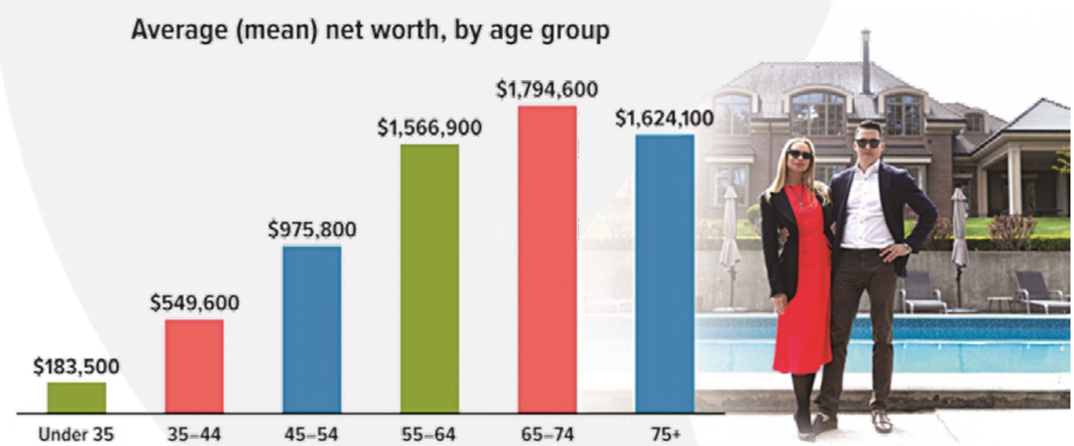
Starting a college fund early and aggressively looking for grant aid from colleges can help families reduce the amount they may need to borrow. A net price calculator, available on every college website, can help families estimate how much grant aid a student might receive at a particular college.



Source: *How America Pays for College 2023, Sallie Mae*

JUST YOUR AVERAGE MILLIONAIRE

The average net worth of U.S. families surpassed $1 million ($1,063,700) for the first time in 2022, after increasing 23% from 2019. (A family's net worth is the total of their financial assets minus their liabilities, or debts.) Unfortunately, this milestone does not mean the typical American is a millionaire, because a small number of very wealthy households skews the average. The median net worth ($192,900 in 2022) was much lower than the average, but its growth was by far the largest on record. Still, the net worth of U.S. families varies greatly depending on housing status, education, income level, and age — which shows that it usually takes time and diligence to build wealth.



Source: Federal Reserve, 2023

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.

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

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.

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

RETROACTIVE SOCIAL SECURITY BENEFITS: A CHANCE TO TURN BACK TIME

Did you know that if you postpone claiming Social Security past your full retirement age, you have the option of receiving a lump-sum payment for up to six months of benefits when you finally apply?

Receiving retroactive benefits in a lump sum might be helpful if you face a change in health or need cash in an emergency. However, you'll want to think through the consequences, because taking an initial lump sum will reduce your monthly Social Security retirement benefit for the rest of your life.

For example, let's say your full retirement age is 67, and your full retirement benefit would be $2,400. You decide to wait to apply for Social Security. By waiting past full retirement age, you earn delayed retirement credits that will increase your benefit by 8% per year, up to age 70. You apply for retirement benefits at age 67 and 6 months. Your benefit is now $2,496, due to the delayed retirement credits you've earned, 4% higher than at age 67.

If you opt to take benefits retroactively in a lump sum, your official Social Security start date and the amount of your monthly benefit will be rolled back by six months, and you will lose six months of delayed retirement credits. Your lump-sum benefit will be based on your age

67 benefit, so you will receive $14,400 ($2,400 x 6) — a sizeable amount. The downside is that your ongoing monthly benefits will be permanently reduced.

In this example, because you received a lump-sum payment for six months of benefits, your ongoing monthly benefit will be 4% lower for the rest of your life.

Full retirement age is 66 to 67, depending on year of birth.

Factors to consider when deciding if you should take retroactive benefits include your life expectancy and whether you have a greater need for immediate funds or ongoing retirement income. If you're married, your decision might affect future benefits paid to your surviving spouse, because these will be based on what you were receiving. There may also be tax consequences.

There's no single "right" time to claim Social Security retirement benefits. Knowing that you have the option to claim retroactive benefits any time after you reach full retirement age and before age 70 might help lessen the pressure of trying to perfectly time your decision.

THE IRS WANTS MORE INFO ABOUT YOUR GIG INCOME

If you earn money through a payment app or online marketplace, you may be affected by a tax reporting change enacted by the 2021 American Rescue Plan. The law requires third-party settlement organizations to report business transactions totaling over $600 per year by issuing a Form 1099-K to the taxpayer and the IRS. The previous reporting threshold was much higher ($20,000 and 200 business transactions).

This change was delayed for the 2023 tax year because it could trigger frustrating unintended consequences. According to the Internal Revenue Service, an estimated 44 million taxpayers might have received unexpected 1099-K forms — with amounts that may not have been taxable. To provide more lead time, the agency announced plans to drop the threshold from $20,000 to $5,000 in 2024 (without regard to the total number of transactions) as part of a phase-in of the $600 threshold.

Here are a few more things that may be helpful to know about this far-reaching new rule.

It's not personal. Business transactions are payments for goods or services, including tips. Money received from the online sale of personal items (like old clothing or furniture), which are normally sold at a loss, is not taxable and generally doesn't need to be reported. However, those in the business of reselling goods for a profit should carefully track the original costs of their purchases. Payment apps are not required to report personal transactions intended as gifts or to split costs. The payer will typically be asked to note nonbusiness transactions.

It's not a tax change. Taxpayers who sell goods, rent out a vacation home, walk dogs, or perform any other type of freelance work through digital platforms were already responsible for self-reporting all income on their tax returns regardless of the threshold. But now the IRS can cross-reference the information sent by third parties with the reported amounts.

It's not foolproof. This change could still cause confusion and costly mistakes. If a payer (such as a roommate making a shared rent payment) accidently clicks on the wrong box, the recipient could receive a Form 1099-K in error. A freelancer might receive a Form 1099-K from the payment processor and a Form 1099-MISC from the client for the same transaction. In such cases, the taxpayer may need to contact the issuer, and if a discrepancy is not corrected, the reported amount can be adjusted with a notation on the tax return.

Using separate accounts for business and personal digital transactions and keeping organized records will help ensure that your tax return is accurate, so you don't overpay or raise red flags with the IRS. If you have questions about how the new rule might affect you, don't hesitate to consult a qualified tax professional.

IMPORTANT DISCLOSURES

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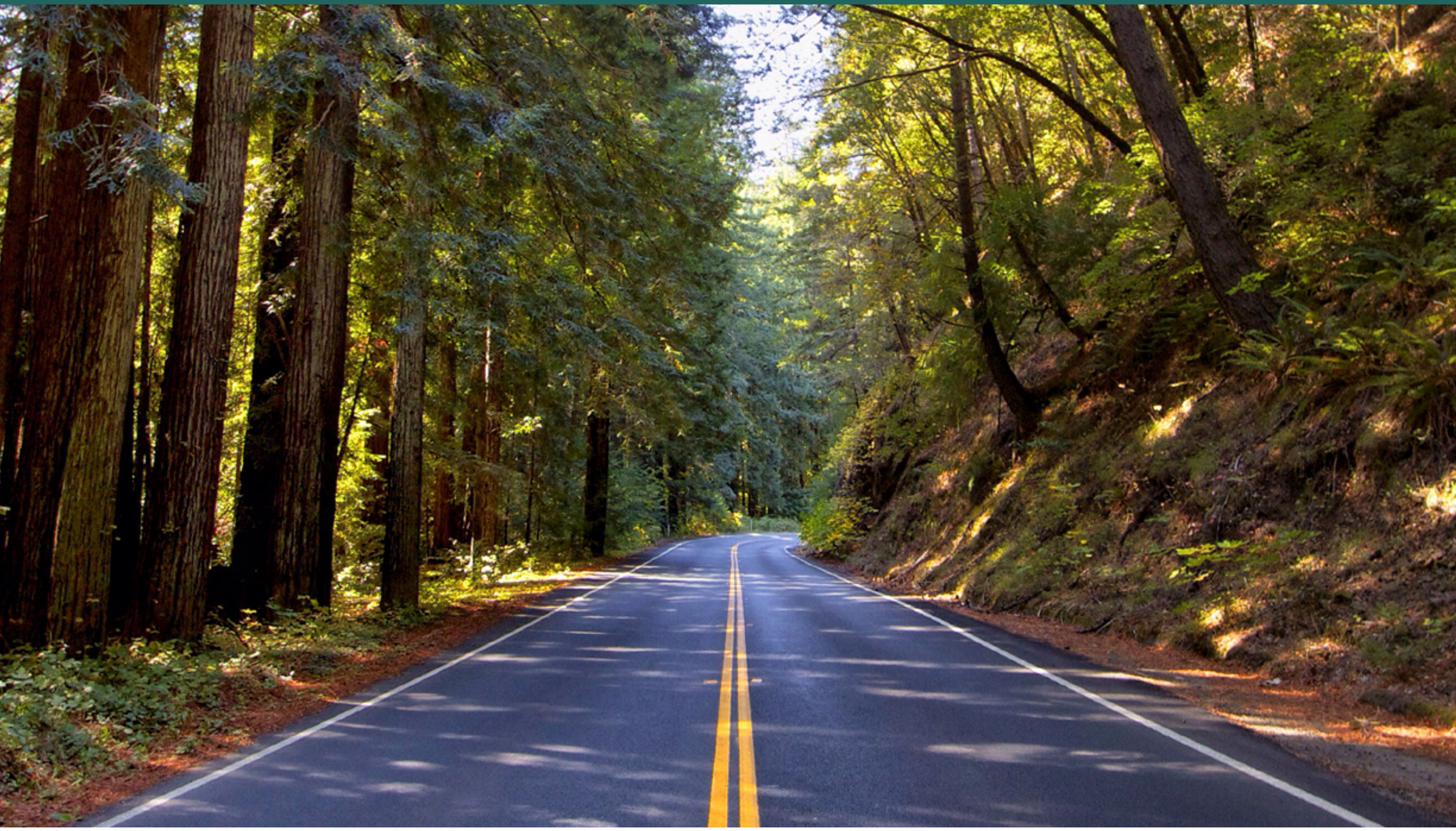
WEALTH MANAGEMENT



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