Imagine what you could learn from all 48 pages...

NUA (Net Unrealized Appreciation)

Potentially beneficial tax treatment for lump-sum distributions of company stock from qualified plans—often from ESOPs or stock bonus plans.

- A lump-sum distribution consists of two elements: the cost basis and the NUA. The tax treatment of each element is different.
- The cost basis equals the value of the stock at the time it was contributed or purchased within the plan and is taxed as ordinary income in the year of distribution.
- NUA is the value of the distribution in excess of the cost basis and is taxed as a long-term capital gain upon sale. Any future appreciation from the date of distribution is taxed as long-term or short-term depending on holding period from date of distribution.
- Example: Anna takes a lump-sum distribution from XYZ that consists of employer securities. The $500,000 distribution has a cost basis of $100,000.

FMV	$500,000	
Cost Basis	($100,000)	(ordinary income)
NUA	$400,000	(LTCG—D) deferred until sold

  - The cost basis is subject to tax in the year of distribution.
  - The NUA is taxed upon sale of the stock.
- This tax treatment is only favorable in the event that the NUA portion is sufficiently large. If, for example, the cost basis was $400,000, then it would make more sense to defer taxation.

Social Security Benefit Reduction & Increases

Early retirement reduction prior to full retirement age

Before FRA (full retirement age) reduction = 5/9 (1%) times months up to 36 months plus 5/12 (1%) for additional months beyond 36. For example, if FRA is 67, then only 70% of primary insurance amount (PIA) would be received at age 62.

Year of Birth	Full Retirement Age	Age 62 Reduction Months	Average Monthly Percent Reduction	Total Percent Reduction
1937 or earlier	65	36	0.555	20.00
1943-1954	66	48	0.520	25.00
1960 and later	67	60	0.500	30.00

Delayed retirement increases from full retirement age

- After FRA delayed retirement credits 8% per year (born 1943 or later). For example, if FRA is 66, then delaying until age 70 results in benefit equal to 132% of PIA at age 66.
- For early retirees, benefit may be further reduced if earnings are too high (benefit is reduced $1 for every $2 above a threshold). In year in which full retirement age is reached, reduction is $1 for every $3 above a higher threshold.

CODAs (401(k) Plans)

Two Layers of Contributions

Employer (ER) and employe (EE)—double stack—total cannot exceed annual additions limit, except for catch up contributions.

Limits on Employee Deferrals

$20,500 (2022) and $6,500 catch-up for those over age 50 and over.

Vesting Schedule

- EE deferral—always 100% vested.
- Match and ER contribution—3 year cliff or 2 to 6 graduated.

Must Meet the ACP and ADP Tests (except safe harbor plans)

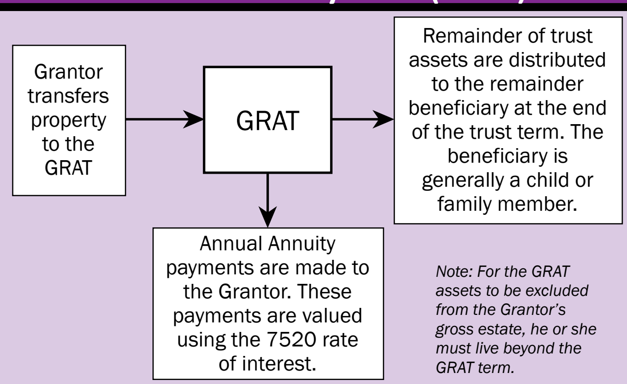
Safe Harbor 401(k) Plans

- Standard
  - Required ER contribution: Match: dollar for dollar up to 3% plus 50% from 3% to 5% or Non-elective (NE): 3%.
  - ER contribution is 100% vested.
- Qualified Automatic Contribution Arrangement (QACA)
  - Required deferral:
    - Year 1: at least 3%
    - Year 2: at least 4%
    - Year 3: at least 5%
    - Year 4: at least 6% (not to exceed 15%)
  - Match: 100% for first 1% plus 50% from 1% to 6% or NE 3%.
  - Vesting: 2 years, 100%.

Hardship Distributions

- Must have immediate and heavy financial need and other funds are not available. Employer can rely on written representation by employee [facts and circumstances test].
- Amount available: total elective deferrals, QNECs, QMACs, and earnings on these contributions, less previous distributions.
- Subject to ordinary income and possibly 10% penalty [no 20% withholding].
- Could be for medical, residence, funeral, tuition, eviction, etc.

Grantor Retained Annuity Trust (GRAT)



Note: For the GRAT assets to be excluded from the Grantor's gross estate, he or she must live beyond the GRAT term.

QUICKSHEETS

2022 SAMPLE
(FROM 48-PAGE SET)

Much of the following information is taken from the 48-page set of 2022 Money Education QuickSheets.

Know The Numbers (2022)

Retirement Limits	
Annual Compensation Limit	$305,000
Defined Benefit Plan Maximum	$245,000
Defined Contribution Plan Maximum	$61,000*
401(k) Elective Deferral Limit	$20,500
401(k) Catch-up Contribution (≥Age 50)	$6,500**
IRA Limit	$6,000
IRA Catch-up Contribution (≥Age 50)	$1,000
IRA Deduction AGI Phase-out Limits for Active Participants	Single: $68,000 to $78,000 MFJ: $109,000 to $129,000 Married Only One Active: $204,000 to $214,000
Roth IRA Contribution Income Limits	Single: $129,000 to $144,000 MFJ: $204,000 to $214,000
Social Security Wage Base	$147,000
Health Care FSA Limit	$2,850

*This limit includes employee, employer, and forfeiture contributions.
**A catch-up contribution can allow an employee to exceed the$61,000 limit.

Estate Limits	
Annual Gift Tax Exclusion	$16,000
Annual Gift Tax Exclusion to a Noncitizen Spouse	$164,000
Applicable Exclusion Amount For Gift and Estate Tax	$12,060,000
Applicable Credit Amount	$4,769,800

Employer Stock Options

Types of Employer Stock Options

Nonqualified stock options (NQSO), incentive stock options (ISO), stock appreciation rights (SAR), and employee stock purchase plans (ESPP).

- **NQSOs**—no tax upon grant (as long as the exercise price is greater than or equal to FMV on date of grant—typical). Upon exercise, difference between exercise price and FMV is taxable as ordinary income. Subsequent gains are capital, long or short, depending on holding period from date of exercise.
- **Cashless exercise**—simultaneous exercise of the option and sale of the stock. Employee receives net proceeds minus withholding and transaction costs.
- **ISOs**—must be part of a plan, expire within 10 years, have an exercise price not less than FMV upon grant, not be transferrable, and cannot exceed the $100,000 limit.
  - The exercise of an ISO results in no regular income, but an AMT adjustment and will result in a different basis for regular tax purposes and AMT purposes. This difference will be reconciled upon disposition of the shares of stock.
  - ISO shares must be held for at least two years from the date of grant and one year from the date of exercise. If not, then the sale is deemed a disqualifying disposition resulting in ordinary income in lieu of capital gain on the bargain element (excess of FMV over exercise price on date of exercise).
- **SAR**—rights that grant holder cash in the amount equal to the excess of FMV of stock over exercise price. Conceptually, the same as a cashless exercise for a NQSO.
- **ESPP**—stock plan that permits employees to use after tax funds to purchase company stock at 85% of the value of the stock. Annual limit per employee—$25,000. Plans must not be discriminatory.

Payoff Mortgage Early

The amount of interest paid on a mortgage can be substantial. For example, on a $100,000 mortgage at a 6% interest rate financed over 30 years, the owner will pay approximately $115,838 in interest. That's more than the amount borrowed, which also has to be repaid. Below are several techniques to pay off the mortgage early.

Example: Mortgage: $100,000 Annual Interest Rate: 6% Term: 360 Months Payment: $599.55

Technique	Standard Payment	Double the Monthly Payment	Increase Monthly Payment by 10%	Extra Payment at the End of Each Year	Extra $100 (.1%) Every Payment
Total Payments	$215,838	$129,714	$187,690	$192,197	$175,236
Total Interest Saved	N/A	$86,124	$28,149	$23,641	$40,602
Month Mortgage is Paid Off	360	108	285	297	252

Note: A $100,000 mortgage was used so it can be easily converted to $200,000, $300,000, etc.

QuickTip

Always check a client's insurance coverage, limits, and deductibles for auto, property, disability, life, health, and liability insurance. Does their emergency fund tie with the elimination period for their disability insurance?

MONEY EDUCATION