DIETZENBACH FINANCIAL
INVESTED IN YOUR FUTURE

Issue 2 Summer 2021

THE ISSUE

Eric and Matt Dietzenbach

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2021 OFFICE UPDATE

Eric Dietzenbach
July 5th, 2021

Hello everyone!

Hope all is well with you and your families. With the 4th of July behind us, it is hard to believe that summer is almost half over. For our family, June flew by with two of our kids in Little League. They even let me coach the Boys Team this year! Things continue to improve on the COVID-19 front, and I think it is safe to say this summer has been completely different than last summer. It has been great to be able to attend some early summer town celebrations and county fairs and I look forward to a busy rest of the summer.

For Dietzenbach Financial, 2021 has gotten off to a busy start. With more people on the move and willing to meet in person, our First Quarter was hectic to say the least. With the increased activity and Matt getting up to full speed, we are excited to announce that we recently hired Lee Balik as a Customer Service Representative. Lee will work alongside Ashton to help with the behind-the-scenes part of our business. Lee lives in Spillville with her fiancé, Blake Langreck. We are excited to have Lee join our team!

We are also excited to announce that we will be hosting an Open House on Thursday, July 29th from 3 until 7 PM. It will be an informal event and an opportunity for our clients, friends, and the community to check out our newly remodeled office and meet our team. We will be serving a light meal and drinks at "The Bar" next door. All are welcome to attend. Please mark your calendars.

And while you are marking your calendars, a reminder that it is never too early, or too late, to take an inventory of your financial situation. Whether you are at the beginning of financial journey or nearing the end, a trusted Financial Advisor can help you get to your destination. Give us a call to schedule an appointment to discuss your situation. We are here to help!

All the Best,

Eric Dietzenbach

NEXT PAGE: THIS MONTH'S FEATURED ARTICLES

History of Federal Estate Tax

The history of estate taxes in America has been a long and winding road. Careful estate planning is still one of the most important ways to manage and protect your assets for your heirs.

The Stamp Act of 1797 was the first federal estate tax in the United States and was passed to help fund an undeclared war with France; it was repealed in 1802. The Revenue Act of 1862 reinstated the estate tax in order to fund the Civil War; it was abolished in 1870. To finance the Spanish American War, the War Revenue Act of 1898 was passed, and subsequently abolished in 1902. Due to the costs of World War I, the Revenue Act of 1916 reinstated an estate tax that, in some form or other, has been in effect ever since.

The Economic Growth and Tax Relief Reconciliation Act of 2001 gradually increased the federal estate tax exclusion, until finally repealing the federal estate tax altogether for the 2010 tax year only. The Tax Relief Act of 2010 reinstated the federal estate tax with a $5 million exclusion, indexing the exclusion for inflation after 2011. The provisions of the Tax Relief Act of 2010 expired on December 31, 2012.

The American Taxpayer Relief Act of 2012 increased the federal estate tax rate from 35% to 40%, but left in place the higher exclusion level, which reached $5.49 million in 2017 (up from $5.45 million in 2016); both provisions are now permanent. It also left in place the "portability" of any unused exclusion between spouses.

The latest major piece of tax legislation is the Tax Cuts and Jobs Act, which was signed into law on December 22, 2017. This Act doubled the federal estate tax exclusion to $11.18 million in 2018 (indexed annually for inflation) while retaining the 40% tax rate. The 2021 federal estate tax exclusion is $11.7 million (up from $11.58 million in 2020). In 2026, the exclusion is scheduled to revert to its pre-2018 level.

WHAT IS A SELF-EMPLOYED RETIREMENT PLAN?

A self-employed retirement plan is a tax-deferred retirement savings program for self-employed individuals. In the past, the term "Keogh plan" or "H.R. 10 plan" was used to distinguish a retirement plan established by a self-employed individual from a plan established by a corporation or other entity. However, self-employed retirement plans are now generally referred to by the name that is used for the particular type of plan, such as SEP IRA, SIMPLE IRA, SIMPLE 401(k), or self-employed 401(k) (also known as a solo 401(k) or an individual 401(k)).

Self-employed plans can be established by any individual who is self-employed on a part-time or full-time basis, as well as by sole proprietorships and partnerships (who are considered “employees” for the purpose of participating in these plans).

Unlike IRAs, which limit tax-deductible contributions to $6,000 per year in 2021, self-employed plans allow you to save as much as $58,000 of your net self-employment income in 2021, depending on the type of self-employed plan you adopt.

Contributions to a self-employed plan may be tax deductible up to certain limits. These contributions, along with any gains made on the plan investments, will accumulate tax deferred until you withdraw them.

Withdrawal rules generally mirror those of other qualified retirement plans. Distributions are taxed as ordinary income and may be subject to 10% federal income tax penalty if taken prior to age 59½, unless an exception applies. (Special rules apply to Roth accounts and SIMPLE IRAs.) Self-employed plans can typically be rolled over to another qualified retirement plan or to an IRA. Annual minimum distributions are required after the age of 72.

You can open a self-employed plan account through banks, brokerage houses, insurance companies, mutual fund companies, and credit unions. Although the federal government sets no minimum opening balance, most institutions set their own, usually between $250 and $1,000.

The deadlines for setting up a self-employed plan and for making contributions vary by plan type.

Each tax year, you may be required to fill out Form 5500, depending on the type of plan you choose. You may need the assistance of an accountant or tax advisor, incurring extra costs.

If you earn self-employment income, a self-employed plan could be a valuable addition to your retirement strategy. And the potential payoff — a comfortable retirement — may far outweigh any extra costs or paperwork.

How Can I Upgrade My Insurance - Tax-Free?

Responding to the changing needs of consumers, the life insurance industry has developed some alternatives that go much further in satisfying a variety of financial needs and objectives than some of the more traditional types of insurance and annuities.

Advancements

Modern contracts offer much more financial flexibility than traditional alternatives do. For example, universal life and variable universal life insurance policies allow policy owners to adjust premiums and death benefits to suit their financial needs.

Modern contracts can also provide much more financial control. Whereas traditional vehicles, such as whole life insurance and fixed annuities, provide returns that are determined by the insurance company, newer alternatives enable clients to make choices that help determine returns. For example, variable annuities and variable universal life insurance allow investors to allocate premiums among a variety of investment subaccounts, which can range from conservative choices, such as fixed-interest and money market portfolios, to more aggressive, growth-oriented portfolios. Returns are based on the performance of these subaccounts.

There are contract limitations, fees, and charges associated with variable annuities and variable universal life insurance, which can include mortality and expense risk charges, sales and surrender charges, investment management fees, administrative fees, and charges for optional benefits. Withdrawals reduce annuity contract benefits and values. Variable annuities and variable universal life insurance are not guaranteed by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing company.

Withdrawals of annuity earnings are taxed as ordinary income and may be subject to surrender charges plus a 10% federal income tax penalty if made prior to age 59½. The investment return and principal value of an investment option are not guaranteed. Because variable annuity subaccounts fluctuate with changes in market conditions, the principal may be worth more or less than the original amount invested when the annuity is surrendered.

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The cash value of a variable universal life insurance policy is not guaranteed. The investment return and principal value of the variable subaccounts will fluctuate. Your cash value, and perhaps the death benefit, will be determined by the performance of the chosen subaccounts. Withdrawals may be subject to surrender charges and are taxable if you withdraw more than your basis in the policy. Policy loans or withdrawals will reduce the policy's cash value and death benefit and may require additional premium payments to keep the policy in force.

There are differences between variable- and fixed-insurance products. Variable universal life insurance offers several investment subaccounts that invest in a portfolio of securities whose principal and rates of return fluctuate. Also, there are additional fees and charges associated with a variable universal life insurance policy that are not found in a whole life policy, such as management fees. Whole life insurance offers a fixed account, generally guaranteed by the issuing insurance company.

The Dilemma

So what should you do if you want to cash out of your existing insurance policy or annuity contract and trade into one that better suits your financial needs, without having to pay income taxes on what you've accumulated?

One solution is the "1035 exchange," found in Internal Revenue Code Section 1035. This provision allows you to exchange an existing insurance policy or annuity contract for a newer contract without having to pay taxes on the accumulation in your old contract. This way, you gain new opportunities for flexibility and tax-deferred accumulation without paying taxes on what you've already built up.

The rules governing 1035 exchanges are complex, and you may incur surrender charges from your old policy or contract. In addition, you may be subject to new sales and surrender charges for the new policy or contract. It may be worth your time to seek the help of a financial professional to consider your options.

Variable annuities and variable universal life insurance are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity and variable universal life contract and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

YOU'RE INVITED!

Dietzenbach Financial Open House

Thursday, July 29th
3PM - 7PM
Dietzenbach Financial
101 N Maryville St.
Calmar, IA 52132
Food and drink will be provided

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