

## You may be paying “stealth taxes” and not even know!

One of the most prominent areas where you may encounter these is with respect to the phase-outs of deductions, credits, or exclusions based on your Modified Adjusted Gross Income (MAGI) or Adjusted Gross Income (AGI). As your MAGI or AGI increases, you may lose some or all of the benefits of certain tax provisions. This is an intentionally partial list for affluent pre-retirees and retirees.

### Medicare Part B and Part D Premium Increases Based on Income (IRMAA)

- 📌 **Description:** Medicare Part B covers outpatient services, while Part D covers prescription drugs. Most beneficiaries pay standard monthly premiums for both. However, higher-income beneficiaries may pay more due to the Income-Related Monthly Adjustment Amount (IRMAA).
- 📌 **Phase-Out/Increase:** If your MAGI exceeds certain thresholds, you'll pay higher premiums for both Part B and Part D. These income brackets are updated annually, and the premiums can change based on legislation or administrative decisions.

### Taxation of Social Security Benefits

- 📌 **Description:** Depending on your combined income – which includes your adjusted gross income, non-taxable interest, and half of your Social Security benefits – a portion of your Social Security benefits might be taxable.
- 📌 **Phase-Out/Increase:** If you file as an individual and your combined income is between \$25,000 and \$34,000, you may have to pay income tax on up to 50% of your benefits. If it's more than \$34,000, up to 85% of your benefits may be taxable.

For couples filing jointly, if the combined income is between \$32,000 and \$44,000, up to 50% of benefits may be taxable. If it's more than \$44,000, up to 85% of benefits may be taxable.

### The "Widow's Penalty"

- 📌 **Description:** This isn't an official term in tax parlance, but it describes the financial situation that widows or widowers may find themselves in after the death of a spouse. When a spouse dies, the surviving spouse will often transition from filing taxes as "Married Filing Jointly" (MFJ) to "Single" in the following year. This change can lead to higher tax rates and a lower standard deduction.
- 📌 **Implications:** Filing as single can push the individual into a higher tax bracket more quickly than if they were able to file as MFJ. Additionally, the standard deduction for single filers is lower than that for MFJ, potentially leading to more taxable income.

### Net Investment Income Tax (NIIT)

- 📌 **Description:** A 3.8% tax on the lesser of net investment income or the amount by which MAGI exceeds a threshold.
- 📌 **Phase-In:** This is more of a phase-in than a phase-out. The NIIT applies once the taxpayer's MAGI exceeds a certain level.

Securities offered through LPL Financial, Member FINRA/SIPC.

Investment advice offered through TOP Private Wealth, a registered investment advisor and separate entity from LPL Financial.

## Medical Deduction Phaseout

- 📄 **Description:** Medical expenses can be a deductible item on a taxpayer's return, but they're subject to specific limitations. These deductions are for qualified medical expenses that the taxpayer pays for themselves, their spouse, and dependents.
- 📄 **Phase-Out/Threshold:** Only the portion of total medical expenses that exceeds a certain percentage of the taxpayer's Adjusted Gross Income (AGI) can be deducted. Historically, this threshold has shifted, being set at 7.5% of AGI for many years, then increased to 10% for most taxpayers. However, there were periods when taxpayers over a certain age could utilize the 7.5% threshold. This means, for instance, with an AGI of \$100,000 and a threshold of 10%, only the amount of medical expenses exceeding \$10,000 would be deductible. This threshold can be subject to legislative changes.

## Premium Tax Credit (for health insurance purchased through a marketplace)

- 📄 **Description:** A tax credit to help lower the cost of health insurance.
- 📄 **Phase-Out:** The credit amount is based on a sliding scale and decreases as the taxpayer's MAGI approaches 400% of the federal poverty line.

## Qualified Business Income (QBI)

- 📄 **Description:** The Qualified Business Income Deduction, also known as Section 199A deduction, was introduced as part of the Tax Cuts and Jobs Act (TCJA) in 2017. It allows eligible taxpayers to deduct up to 20% of their qualified business income (QBI) from a sole proprietorship, partnership, S corporation, trust, or estate. The deduction is available to both itemizers and non-itemizers.
- 📄 **Phase-Out/Threshold:** The QBI deduction has restrictions, especially for taxpayers engaged in specified service trades or businesses (SSTBs) which include fields like health, law, and financial services among others. If a taxpayer's taxable income exceeds a certain threshold, the deduction might be limited or phased out. For those not in SSTBs, if income exceeds the threshold, they may be subject to limitations based on W-2 wages paid by the business and the business's unadjusted basis in acquired qualified property. The thresholds and exact limitations are adjusted annually for inflation.

## Pease Limitation on Itemized Deductions (Note: Suspended from 2018-2025)

- 📄 **Description:** Reduces the value of certain itemized deductions for high-income taxpayers.
- 📄 **Phase-Out:** The total amount of affected itemized deductions is reduced by 3% of the amount by which AGI exceeds a specified threshold, but the reduction cannot exceed 80% of the deductions.

## Personal Exemptions (Note: Suspended from 2018-2025)

- 📄 **Description:** A deduction from income for the taxpayer and each dependent.
- 📄 **Phase-Out:** Before it was suspended, there was a phase-out of personal exemptions for higher-income taxpayers.

Securities offered through LPL Financial, Member FINRA/SIPC.

Investment advice offered through TOP Private Wealth, a registered investment advisor and separate entity from LPL Financial.

TOP Private Wealth dba SkyBlue Wealth Advisors is a Registered Investment Advisor authorized to conduct advisory business in registered states. For detailed information about our qualifications, services, and fees, please refer to our Form ADV Part 2A - Firm Brochure and Form ADV Part 2B - Supplemental Brochure and Privacy Policy available at SkyBlueWealth.com.