

What's Next: The ABLE Act and Tax Tips



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Tax Benefits for Families with Special Needs

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Tax Benefits

- Maximizing tax benefits is critical
 - Cutbacks in government programs
 - Insurance companies' unwillingness to pay claims
- Estate tax
 - Federal
 - State
- Gift tax
 - Annual exclusion
 - Payments directly to medical provider

Tax Benefits

- Income tax
 - Deduction
 - Value depends on effective tax rate
 - Credit
 - Dollar for dollar
- Keep all receipts
 - This is your responsibility
 - Deduction only for people who itemize

Income Tax Benefits

- Medical expenses
 - 10% of adjusted gross income
 - 7.5% if age 65 or older
 - Expenses for yourself, spouse or dependent
 - No age requirement for individuals with disabilities
 - Capital improvements
 - Accommodations made to your home
 - › Ramps
 - › Widening doorways or entrances

Capital Improvements

- Installing railings or support bars
- Bathroom and kitchen modifications
- Elevators
- Modifying stairways
- Moving electrical outlets
- Modifying hardware on doors
- Modifying alarms and smoke detectors
- Caveat re: increase in value of home

Medical expenses

- Modifications to car
 - Special hand controls
 - Wheelchair access
 - Standard mileage rate is 23.5 cents
- Insurance premiums
- Special education
 - Tutoring services
 - Tuition costs for special school
 - Principal reason

Medical expenses

- Dental
- Therapies
- Wheelchair
- Medical conferences and seminars
- Child care is NOT a medical expense



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The ABLE Act

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The ABLE Act is Law

The Stephen Beck, Jr. Achieving a Better Life Experience (ABLE) Act

- became law on December 19, 2014
- creates a new option for *some* people with I/DD and their families to save for the future, while protecting eligibility for public benefits.

What is an ABLE Account?

- ABLE accounts:
 - Are established in the new Section 529A Qualified ABLE Programs
 - Are qualified savings accounts that receive preferred federal tax treatment, similar to 529 college savings accounts
 - Enable eligible individuals to save for disability related expenses
 - Are NOT yet available, and there are still some unknowns
 - Have advantages and disadvantages over other savings options
- Distributions from ABLE accounts for qualified disability related expenses will not count as income to the beneficiary or the contributor (but contributions are not tax deductible)
- Assets in and distributions for qualified disability expenses will be disregarded or given special treatment in determining eligibility for most federal means-tested benefits



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When will ABLE accounts be available?

- Before ABLE accounts become available:
 - Federal regulations need to be written. The Treasury Department is required to issue regulations or guidance within six months of enactment of the ABLE Act
- Each state must decide whether (and how) to offer a qualified ABLE program to residents – some considering authorizing legislation now
- The timing of ABLE program availability will vary from state to state

Who is eligible to be an ABLE account beneficiary?

To be eligible, individuals must meet two requirements:

1) Age requirement: must be disabled before age 26 **AND**

2) Severity of disability:

› Have been determined to meet the disability requirements for Supplemental Security Income (SSI) or Social Security disability benefits,

OR

› Submit a certification that meets criteria (essentially equal to Social Security level of disability) to be further established in regulations, including a physician's diagnosis

What are some important requirements of ABLE account?

- Each eligible individual may have only one ABLE account.
- “Designated beneficiary” is the account owner.
- Account must be established in the designated beneficiary’s state of residence, or in a contracting state.
- Total annual contributions may not exceed the federal gift tax limit, which is currently \$14,000.
- Multiple individuals may make contributions to the one ABLE account.
- Aggregate contributions may not exceed the state limit for 529 savings accounts.



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What may funds from an ABLE account be used for?

Distributions from an ABLE account may be made for qualified disability expenses, related to the individual's disability or blindness and made for his/her benefit, including:

- Education
- Housing
- Transportation
- Employment training and support
- Assistive technology and personal support services
- Health, prevention, and wellness
- Financial management and administrative services
- Legal fees
- Expenses for oversight and monitoring
- Funeral and burial expenses
- Any other expenses approved by the Secretary of the Treasury under regulations consistent with the purpose of the program

Expenditures for non-qualified expenditures will be penalized (tax and potential SSI penalties).

How do ABLE account assets impact eligibility for federal benefits?

ABLE assets will be disregarded or receive favorable treatment when determining eligibility for most federal means-tested benefits:

- SSI: For SSI, only the first \$100,000 in ABLE account assets will be disregarded.
 - SSI payments will be suspended if the beneficiary's account balance exceeds \$100,000 but SSI benefits (eligibility) will not be terminated. Funds above \$100,000 will be treated as resources.
 - Housing expenses will receive the same treatment as all housing costs paid by outside sources (SSI benefits subject to reduction of 1/3 federal SSI payment, as applicable).

Impact on Federal Benefits (cont.)

- Medicaid: ABLE assets are disregarded in determining Medicaid eligibility
 - Medicaid benefits are NOT suspended if the ABLE account balance exceeds \$100,000
 - Medicaid Payback: Any assets remaining in the ABLE account when a beneficiary dies, subject to outstanding qualified disability expenses, will be used to reimburse a state for Medicaid payments made on behalf of the beneficiary after the creation of the ABLE account



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What are some advantages of ABLE accounts?

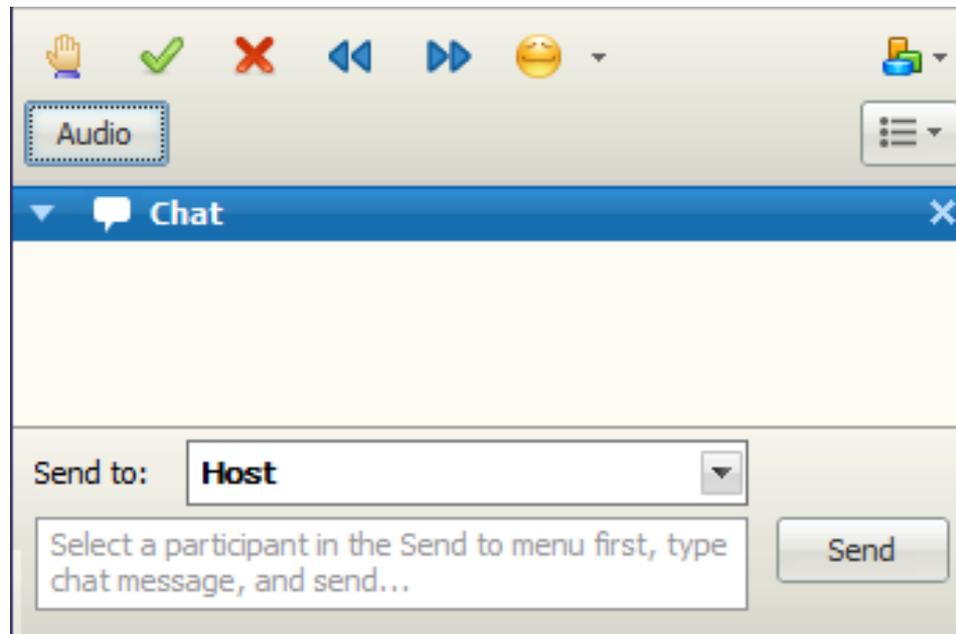
- Easy to set up and administer
- Designated beneficiary is the owner
- More individual choice and control over spending
- Allows SSI beneficiaries to have more assets to use for disability related needs
- Preferred tax treatment of distributions
- Another tool to use in a broader planning context

What are some considerations to be aware of about ABLÉ accounts?

- Age limitation disqualifies many people with disabilities
- ABLÉ accounts may not work for many eligible people
- Contribution limits – both annual and aggregate
- Limitation on distributions to disability related expenses
- Because designated beneficiary is the owner of the account, all contributions to the account become subject to Medicaid payback
- Unlike a trust, ABLÉ accounts can't be used to own a house (but can be used to pay expenses)
- Designated beneficiaries may need ongoing advice and assistance on expenditures and rules

Questions?

Please raise your hand and we will call on you OR type your question into the chat box.





Next Webinar:

Wednesday, March 11, 2015 from 2:00-3:00 PM Eastern
Building Bridges: Working with Faith Communities to Support
People with I/DD

If you have any questions, please contact us at
futureplanning@thearc.org