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MoneyMatters

SPRING 2022

Everyday Advice

"An investment in knowledge pays the best interest."
– Benjamin Franklin

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April 15 TAX DAY

I owe tax on that?
5 surprising taxable items

Here are five taxable items that might surprise you:

1 Scholarships and financial aid. Scholarships are tax free if used for tuition and course-related supplies. But scholarship money is usually taxable if used to pay for room, board, education-related travel, and equipment not required for enrollment.

***Tip:** When receiving an award, review the details to determine if any part of it is taxable. Don't forget to review state rules as well. While most scholarships and aid are tax-free, no one needs a tax surprise.*

2 Unemployment compensation. Congress gave taxpayers a one-year reprieve in 2020 from paying taxes on unemployment income. Unfortunately, this tax break is not available for the 2021 tax year.

***Tip:** If you are collecting unemployment, you can either have taxes withheld and receive the net amount or make estimated payments to cover the tax liability.*

3 Social Security benefits. If your income is high enough after you retire, you'll owe income taxes on up to 85% of Social Security benefits you receive.

***Tip:** Consider if delaying when you start collecting Social Security benefits makes sense for you. Waiting to start benefits means you'll avoid paying taxes on your Social Security benefits, plus you'll get a bigger payment each month when you do start collecting up to age 70.*

4 Alimony. Prior to 2019, alimony was generally deductible by the person making alimony payments, with the person receiving payments required to report them as taxable income. Now the situation is flipped: For divorce and separation agreements executed since December 31, 2018, alimony is no longer deductible by the payer, and payments are tax free to the person receiving payments.

***Tip:** Consider having the low-income earning spouse take more retirement assets such as 401(k)s and IRAs in exchange for reduced alimony payments. This arrangement would allow the higher-earning spouse to transfer retirement funds without paying income taxes on it.*

5 Gambling winnings. All gambling winnings are taxable, including casino games, lottery tickets and sports betting. Thankfully, the IRS allows you to deduct your gambling losses (to the extent of winnings) as an itemized deduction.

***Tip:** Know when the gambling establishment is required to report your winnings. It varies by type of betting. For instance, the filing threshold for winnings from fantasy sports betting and horse racing is $600, while slot machines and bingo are typically $1,200.* ♦

Great tips for your home-based business

Home-based businesses can be very rewarding financially and provide a certain amount of flexibility with your day-to-day schedule. Here are some great tips to keep your business running at full steam.

Stay on top of accounts receivable

It's easy to focus on fulfilling your business obligations while invoices you've sent out go unpaid. Agree to payment terms with new customers and immediately but politely communicate with them as soon as they miss a payment deadline. Keep current with regular invoicing and collections.

Keep your bookkeeping records up-to-date

In addition to monitoring your bank accounts, consistently look at your accounts receivable, accounts payable, any debts (credit card, car loans or other borrowings), and all money you invest in your business.

Check on permit requirements

Depending on what type of home-based business you have, you may be required to obtain various permits, licenses or other registrations. Check with your town and state for requirements. The Small Business Administration is also a good source to research information on permits.

Get insured

Obtain adequate insurance for the type of operation you'll be running. Besides the insurance required for business activities, you might consider adding a rider to your homeowner's policy for liability protection should an accident occur on your property. Also consider cyberinsurance if appropriate.

Stay on top of technology

Be sure that the technology equipment you use can handle the bandwidth of everything you'll ask it to do, including video calls, software apps and data storage. Also have a back-up plan in place for when a device breaks down, including where you'll go to have it repaired.

Cash in on tax breaks

Take advantage of the tax breaks available to home-based businesses, including deductions for supplies, equipment and vehicle expenses. You may even be able to deduct the cost of your home office, including a pro-rated amount of your real estate taxes and utilities, if certain conditions are met.

Set aside money to pay your taxes

Calculate how much of your incoming cash you should be setting aside to pay your quarterly federal, state and local taxes.

Remember that while you might be in business for yourself, you don't have to do it by yourself. Please call if you have any questions about your home-based business.♦

IRS Update

IRS backing off requirement that taxpayers use biometric data to access certain information

The IRS announced it will transition away from using facial recognition to help authenticate taxpayers who create new online IRS accounts after concerns were raised about protecting taxpayer privacy and security. The IRS will instead develop other ways to authenticate someone's identity. The use of facial recognition was intended to be rolled out this summer by the IRS, but objections shelved the project.

No change to first quarter IRS interest rates

Interest rates for the first quarter in 2022 will remain the same compared to last quarter. These rates include: 3% for overpayments (2% for corporations); 0.5% for the portion of a corporate overpayment over $10,000; 3% for underpayments and 5% for large corporation underpayments. ♦

Tax Calendar

April 18

- ☐ 2021 individual income tax returns are due.
- ☐ First installment of 2022 individual estimated tax is due.

June 15

- ☐ Second installment of 2022 individual estimated tax is due.

Ideas to improve your financial health

Here are several ideas to consider to help improve your financial health:

- **Save more for retirement.** Plan for the future by feathering your retirement nest egg. In 2022 you can contribute up to $20,500 to a 401(k) account, plus another $6,500 if you're age 50 or older. Plus, your company may provide matching contributions up to a stated percentage of compensation. And you can supplement this account with contributions to IRAs and/or other qualified plans.

- **Update your estate plan.** Events such as births, deaths, marriages or divorces in the family or other changes in your personal circumstances should be updated in your will and estate plan. Also review trust documents, powers of attorney (POAs) and healthcare directives or create new ones to facilitate your estate plan.

- **Rebalance your portfolio.** Due to the volatility of equity markets, it's easy for a portfolio to lose balance against your investment objectives. To bring things back to where you want, review your investments periodically and reallocate funds to reflect your main objectives, risk tolerance, and other personal preferences. This will put you in a better position to handle the ups and downs of the markets.

- **Review, consolidate, and lower debt levels.** Start by chipping away at any existing debts. This may mean giving up some luxuries, but it's generally well worth it in the long run. Pay extra attention to debts with high interest charges like credit card debt. If possible, consider consolidating several of these debts into one or two obligations if you can lower your interest rate in the process.

- **Contingency planning.** To avoid potential financial hardship, look to improve your emergency fund by setting aside enough funds to pay for six months or more of your expenses in case of events like a job loss or a severe health issue. ♦

RETIREMENT PLANNING TIPS

- Look at the table below and find the annual limit(s) for your plan. If you are 50 years or older, add the catch-up amount to your potential savings total.
- Make any needed adjustments to your employer-provided retirement savings plan.
- Use this time to review and rebalance your investment choices as appropriate for your situation.
- Consider setting up new accounts for a spouse and/or dependents.
- Double check to ensure you are taking full advantage of any employee matching contributions into your account.
- Consider IRAs. Many employees maintain employer-provided plans. You can also establish a traditional or Roth IRA. Review your situation and see if these additional accounts might benefit you or someone else in your family.
- Review contributions to other tax-advantaged plans, including health savings accounts (HSAs).

PLAN		2022
SIMPLE IRA	**Annual Contribution** *50 or over catch-up*	**$14,000** *Add $3,000*
401(k), 403(k) 457 and SARSEP	**Annual Contribution** *50 or over catch-up*	**$20,500** *Add $6,500*
Traditional IRA	**Annual Contribution** *50 or over catch-up*	**$6,000** *Add $1,000*
AGI Deduction Phaseouts	Single; Head of Household	68,000 – 78,000
	Joint nonparticipating spouse	204,000 – 214,000
	Joint participating spouse	109,000 – 129,000
	Married Filing Separately (any spouse participating)	0 – 10,000
Roth IRA	**Annual Contribution** *50 or over catch-up*	**$6,000** *Add $1,000*
AGI Deduction Phaseouts	Single; Head of Household	129,000 – 144,000
	Married Filing Jointly	204,000 – 214,000
	Married Filing Separately	0 – 10,000
AGI Deduction Phaseouts	Joint, Single or Head of Household	No AGI Limit
	Married Filing Separately	Allowed / No AGI Limit

This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be easily summarized. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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Money Matters
PRACTICAL TAX AND FINANCIAL ADVICE

If you wait, it's too late!

Fire survival occurs before the first sign of smoke

Dealing with a fire starts long BEFORE it happens with proper planning. Here are some tips from the American Red Cross and the National Fire Prevention Association.

Install and maintain equipment

This includes smoke and carbon monoxide alarms and proper fire extinguishers all in the proper places and all in working order.

Minimize risks

The top causes of home fires are cooking, heating, electrical, smoking and candles. Knowing this, you can reduce the risk of fire by creating an awareness trigger when engaging in these areas. For example:

- Know how to handle different types of cooking fires both inside and outside.
- Know where shut off valves are for gas.
- Unplug when not using electrical devices.
- Never smoke inside.
- Only buy candles enclosed in glass.

Have an escape plan and practice it!

When a fire occurs, you have two minutes to get out. Create a plan, provide two methods of escape, and practice the plan every six months. Know where you are going to meet so everyone is accounted for after you exit. This is especially important for kids as they may need to escape without your help. Also think about overnight guests and grandkids at sleepovers. This is where reviewing plans from experts can help.

Get out. Stay out. Call for help.

Make this your mantra when in the midst of a fire emergency.

Review this 'I wish' list

Hindsight is 20-20, and especially so when it comes to fires. Here are some tips from those who have gone through it:

I wish:

- ***I had a go bag.*** *This is a small bag of essentials stored in your bedroom to grab if you need to leave in a hurry. It contains a change of clothes, coats, or other emergency items for the kids.*
- ***I had a good inventory.*** *After the fire, you are going to spend a significant amount of time with insurance adjusters. Periodically review your policy and develop an inventory of your household items. Take videos, document models and ages of major appliances, autos, other equipment, and valuables.*
- ***I had a 'where to go' plan.*** *If you cannot return to your home, where will you stay? How will you pay for it? Figure this out ahead of time.*
- ***I had a remote backup of my computer and phone.*** *Remote backups can be invaluable in getting you back up and running.*
- ***I had an emergency fund.*** *It will take a while to get your life back in order. What if you need to take time off from work? Having 6 months of emergency funds can make all the difference as you recover from your disaster.* ♦