

Doerschler & Associates

Wealth Management Financial News

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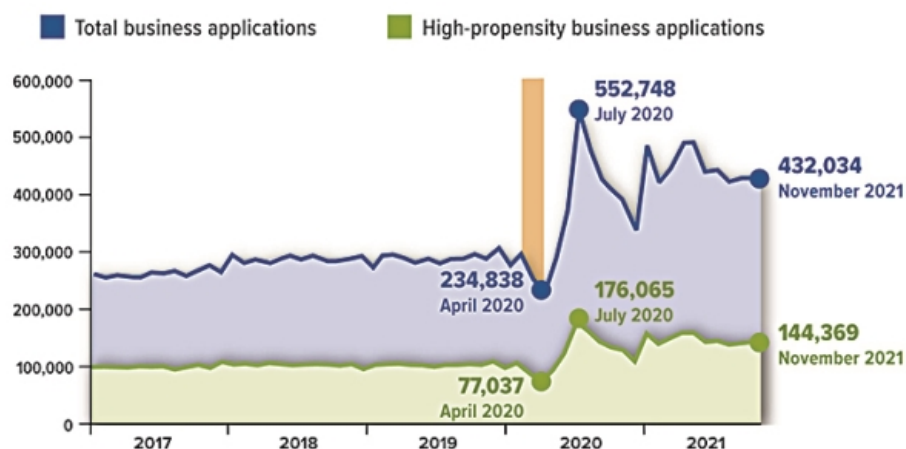


Doerschler & Associates
WEALTH MANAGEMENT

We hope that this communication finds you well. Enclosed are some key topics that we regularly address with our clients. Hopefully these articles help put additional context to common planning points that investors experience in their personal planning scenarios. As always, if you have any questions or would like additional information in regards to any of the topics discussed, please feel free to reach out to myself at 269-744-4180, by email at carl@doerschlerandassociates.com, or Jill at 269-744-2004, by email at jill@doerschlerandassociates.com.

New Businesses May Be Good News for the Economy

After taking a nosedive at the start of the pandemic recession (gold shaded area), business applications rose sharply, peaking in July 2020. Applications have fallen somewhat since then but are still up approximately 84% from their April 2020 low. Businesses that are likely to hire employees — called high-propensity businesses — make up approximately one-third of total applications. Businesses with payroll are considered more likely to power job growth and economic recovery.



Source: U.S. Census Bureau, 2021 (data for the period January 2017 to November 2021)

Key Retirement and Tax Numbers for 2022

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2022.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2022 is \$16,000, up from \$15,000 in 2021.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2022 is \$12,060,000, up from \$11,700,000 in 2021.

Standard Deduction

Taxpayers can generally choose to itemize certain deductions or claim a standard deduction on their federal income tax returns. In 2022, the standard deduction is:

- \$12,950 (up from \$12,550 in 2021) for single filers or married individuals filing separate returns
- \$25,900 (up from \$25,100 in 2021) for married joint filers
- \$19,400 (up from \$18,800 in 2021) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2022 is:

- \$1,750 (up from \$1,700 in 2021) for single filers and heads of household
- \$1,400 (up from \$1,350 in 2021) for all other filing statuses

Special rules apply for those who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$6,000 in 2022 (the same as in 2021), with individuals age 50 or older able to contribute an additional \$1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges (see *chart*). For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges (see *chart*). The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to a Roth IRA

	2021	2022
Single/Head of household	\$125,000–\$140,000	\$129,000–\$144,000
Married filing jointly	\$198,000–\$208,000	\$204,000–\$214,000
Married filing separately	\$0–\$10,000	\$0–\$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2021	2022
Single/Head of household	\$66,000–\$76,000	\$68,000–\$78,000
Married filing jointly	\$105,000–\$125,000	\$109,000–\$129,000

Note: The 2022 phaseout range is \$204,000–\$214,000 (up from \$198,000–\$208,000 in 2021) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is \$0–\$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.

Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$20,500 in compensation in 2022 (up from \$19,500 in 2021); employees age 50 or older can defer up to an additional \$6,500 in 2022 (the same as in 2021).
- Employees participating in a SIMPLE retirement plan can defer up to \$14,000 in 2022 (up from \$13,500 in 2021), and employees age 50 or older can defer up to an additional \$3,000 in 2022 (the same as in 2021).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above \$2,300 in 2022 (up from \$2,200 in 2021) is taxed using the parents' tax rates.

When Two Goals Collide: Balancing College and Retirement Preparations

You've been doing the right thing financially for many years, saving for your child's education and your own retirement. Yet now, as both goals loom in the years ahead, you may wonder what else you can do to help your child (or children) receive a quality education without compromising your own retirement goals.

Knowledge Is Power

Start by reviewing the financial aid process and understanding how financial need is calculated. Colleges and the federal government use different formulas to determine need by looking at a family's income (the most important factor), assets, and other household information.

A few key points:

- Generally, the federal government assesses up to 47% of parent income (adjusted gross income plus untaxed income/benefits minus certain deductions) and 50% of a student's income over a certain amount. Parent assets are counted at 5.6%; student assets are counted at 20%.¹
- Certain parent assets are excluded, including home equity and retirement assets.
- The Free Application for Federal Student Aid (FAFSA) relies on your income from two years prior (the "base year") and current assets for its analysis. For example, for the 2023-2024 school year, the FAFSA will consider your 2021 income tax record and your assets at the time of application.

Strategies to Consider

Financial aid takes two forms: need-based aid and merit-based aid. Although middle- and higher-income families typically have a tougher time receiving need-based aid, there are some ways to reposition your finances to potentially enhance eligibility:

- Time the receipt of discretionary income to avoid the base year.
- Have your child limit his or her income during the base year to the excludable amount.
- Use countable assets (such as cash savings) to increase investments in your college and retirement savings accounts and pay down consumer debt and your mortgage.
- Make a major purchase, such as a car or home improvement, to reduce liquid assets.

Many colleges use merit-aid packages to attract students, regardless of financial need. As your family

explores colleges in the years ahead, be sure to investigate merit-aid opportunities as well. A net price calculator, available on every college website, can give you an estimate of how much financial aid (merit- and need-based) your child might receive at a particular college.

Don't Lose Sight of Retirement

What if you've done all you can and still face a sizable gap between how much college will cost and how much you have saved? To help your child graduate with as little debt as possible, you might consider borrowing or withdrawing funds from your retirement savings. Though tempting, this is not an ideal move. While your child can borrow to finance his or her education, you generally cannot take a loan to fund your retirement. If you make retirement savings and debt reduction (including a mortgage) a priority now, you may be better positioned to help your child repay any loans later.

Some Parents Use Retirement Funds to Pay for College

	Retirement Savings Withdrawal		Retirement Account Loan	
	2020	2021	2020	2021
Percentage of families using each source	14%	16%	7%	6%
Average amount	\$3,143	\$3,633	\$2,806	\$3,631

Source: Sallie Mae, 2021

Consider speaking with a financial professional about how these strategies may help you balance these two challenging and important goals. There is no assurance that working with a financial professional will improve investment results.

Withdrawals from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income and may be subject to a 10% penalty tax if taken prior to age 59½, unless an exception applies. (IRA withdrawals used for qualified higher-education purposes avoid the early-withdrawal penalty.)

1) College Savings Plan Network, 2021

Splurge or Save? Making the Most of Your Income Tax Refund

The IRS issued more than 128 million income tax refunds for the 2020 filing season, putting \$355.3 billion into the hands of U.S. consumers.¹ For most recipients, such a sudden influx of cash prompts an important question: What's the best way to use the money?

Last year, 27% of consumers said they planned to spend their refund on everyday expenses, whereas equal numbers (8%) planned to either "splurge" or take a vacation.² But what about your other options?

Debt Decisions

Though spending your tax refund is tempting, most people surveyed said they planned to save their tax refund and/or pay down debt.³ While reducing debt can be the cornerstone of an effective financial strategy, it's essential to avoid making choices that could set you back in the long run. For example, a home mortgage is often the largest debt taxpayers carry, and making extra mortgage payments can reduce your principal balance and shorten the term of the loan, allowing you to accumulate equity faster.

However, using a refund to cut down mortgage debt ahead of schedule could have counterproductive consequences, including losing the ability to claim the home mortgage interest deduction when filing your income taxes. In addition, the reduction in your overall liquidity may limit your ability to make new purchases or investments that you hadn't anticipated.

With that in mind, it may be better to pay off higher-interest, nondeductible debt first, such as credit-card bills and car loans. Although that strategy may still limit your potential to pursue additional financial opportunities in the short term, your long-term savings may be significant.

Retirement Readiness

Using your refund to potentially bring retirement goals closer to reality might be prudent. IRA contributions (up to \$6,000 in 2022; \$7,000 if age 50 or older) may be deductible, depending on your income and the type of IRA you choose. The 2022 cap on contributions to 401(k) and 403(b) workplace retirement plans is \$20,500 (\$27,000 if age 50 or older). If you aren't yet contributing the maximum, using this year's refund to finance some routine household expenses could help you allocate more of your income to a workplace retirement account. As an added potential benefit, the amount of any matching employer contributions may increase as a result.

Of course, you might want to use this year's refund for another purpose. Be sure to speak with your financial professional for guidance about the best way to proceed. There is no assurance that working with a financial professional will improve investment results.

1) Internal Revenue Service, 2021

2-3) National Retail Federation, 2021

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