INVESTMENT NEWS

2022
Volume 10, Issue 1

· HORWITZ · & ASSOCIATES

End-of-the-Year Money Moves

Here are some things you might consider before saying goodbye to 2022.

What has changed for you in 2022? This year has been as complicated as learning a new dance for some. Did you start a new job or leave a job behind? That's one step. Did you remarry? There's another step. Did you retire? That's practically a pirouette. If notable changes occurred in your personal or professional life, you might want to review your finances before this year ends and 2023 begins. Proving that you have all the right moves in 2022 might put you in a better position to tango with 2023.

Even if your 2022 has been relatively uneventful, the end of the year is still an excellent time to get cracking and see where you can manage your overall personal finances.

Keep in mind that this article is for informational purposes and is not a replacement for real-life advice. Please consult your tax, legal, and accounting professionals before modifying your tax strategy.

Do you engage in tax-loss harvesting? That's the practice of taking capital losses (selling securities worth less than what you first paid for them) to manage capital gains. If you are thinking about this move, consider seeking some guidance from a professional who can provide insights.[1]

You could even take it a step further. Consider that you can deduct up to $3,000 of capital losses over capital gains from ordinary income. You can carry any remaining capital losses above that amount forward to offset capital gains in upcoming years.[1]

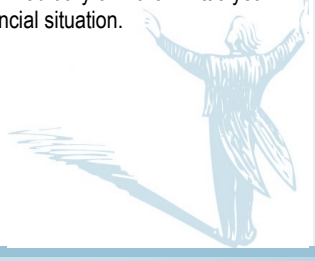
Do you want to itemize deductions? You may want to take the standard deduction for the 2022 tax year, which has risen to $12,950 for single filers and $25,900 for joint. If you think it might be better for you to itemize, now would be an excellent time to get the receipts and assorted paperwork together.[2]

Are you thinking of gifting? How about donating to a qualified charity or non-profit organization before 2022 ends? Your gift may qualify as a tax deduction. For some gifts, you might need to itemize deductions using Schedule A.[3]

While we're on the topic of year-end moves, why not take a moment to review a portion of your estate strategy? Specifically, take a look at your beneficiary designations. If you haven't checked them for some time, double-check that these assets are structured to go where you want them to go, should you pass away. Lastly, look at your will to ensure it remains valid and up-to-date.

Check on the amount you have withheld. If you discover that you have withheld too little on your W-4 form, you may need to adjust your withholding before the year ends.

What can you do before ringing in the New Year? New Year's Eve may put you in a dancing move, eager to say goodbye to the old year and welcome 2023. Before you put on your dancing shoes, consider speaking with a financial or tax professional. Do it now rather than in February or March. Little year-end moves might help you improve your short-term and long-term financial situation.



Citations

1. Investopedia.com, March 6, 2022
2. IRS.gov, December 15. 2021
3. IRS.gov, May 2, 2022

Inside This Issue

Annual Financial To-Do List

Things you can do for your future as the year unfolds.

What financial, business, or life priorities do you need to address for the coming year? Now is an excellent time to think about the investing, saving, or budgeting methods you could employ toward specific objectives, from building your retirement fund to managing your taxes. You have plenty of choices.

Remember that this article is for informational purposes only and not a replacement for real-life advice. The tax treatment of assets earmarked for retirement can change, and there is no guarantee that the tax landscape will remain the same in years ahead. A financial or tax professional can provide up-to-date guidance.

Here are a few ideas to consider:

Can you contribute more to your retirement plans this year? In 2023, the contribution limit for a Roth or traditional individual retirement account (IRA) remains at $6,000 ($7,000 for those making "catch-up" contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA. With a traditional IRA, you can contribute if you (or your spouse if filing jointly) have taxable compensation. Still, income limits are one factor in determining whether the contribution is tax-deductible.[1]

Once you reach age 72, you must take the required minimum distributions from a traditional IRA in most circumstances. The I.R.S. taxes withdrawals as ordinary income and, if taken before age 59½, they may be subject to a 10% federal income tax penalty.

Roth 401(k)s offer their investors a tax-free and penalty-free withdrawal of earnings. Qualifying distributions must meet a five-year holding requirement and occur after age 59½. Such a withdrawal also qualifies under certain other circumstances, such as the owner's passing. Employer match is pretax and not distributed tax-free during retirement. The original Roth IRA owner is not required to take minimum annual withdrawals.

Make a charitable gift. You can claim the deduction on your tax return, provided you follow the Internal Review Service guidelines and itemize your deductions with Schedule A. The paper trail can be important here. If you give cash, you should consider documenting it. A bank record can demonstrate some contributions, payroll deduction records, credit card statements, or written communication from the charity with the date and amount. Incidentally, the IRS does not equate a pledge with a donation. If you pledge $2,000 to a charity this year but only end up gifting $500, you can only deduct $500.[2]

Consult your tax, legal, or accounting professional before modifying your record-keeping approach or your strategy for making charitable gifts.

See if you can take a home office deduction for your small business. You may want to investigate this if you are a small business owner. You might be able to write off expenses linked to the portion of your home used to conduct your business. Using your home office as a business expense involves complex tax rules and regulations. Before moving forward, consider working with a professional familiar with the tax rules related to home-based businesses.

Open an HSA. A Health Savings Account (HSA) works like your workplace retirement account. There are also some HSA rules and limitations to consider. You are limited to a $3,850 contribution for 2023 if you are single; $7,750 if you have a spouse or family. Those limits jump by a $1,000 "catch-up" limit for each person in the household over age 55.[3]

If you spend your HSA funds for non-medical expenses before age 65, you may need to pay ordinary income tax and a 20% penalty. After age 65, you may need to pay ordinary income taxes on HSA funds used for non-medical expenses. HSA contributions are exempt from federal income tax; however, they are not exempt from state taxes in certain states.

Pay attention to asset location. Tax-efficient asset location is one factor to consider when creating an investment strategy. Asset location is different from asset allocation, which is an approach to help manage investment risk. Asset allocation does not guarantee against investment loss.

Review your withholding status. Should it be adjusted due to any of the following factors?

* You tend to pay the federal or state government at the end of each year.
* You tend to get a federal tax refund each year.
* You recently married or divorced.
* You have a new job with adjusted earnings.

Consider consulting your tax, human resources, or accounting professional before modifying your withholding status.

Did you get married in 2022? If so, it may be time to review the beneficiaries of your retirement accounts and other assets. The same goes for your insurance coverage. If you are preparing to have a new last name in 2023, you may want to get a new Social Security card. Additionally, retirement accounts may need to be revised or adjusted.

Are you coming home from active duty? If so, go ahead and check on the status of your credit. Check on any tax and legal proceedings your orders might have preempted, too.

Consider the tax impact of any upcoming transactions. Are you preparing to sell any real estate this year? Are you starting a business? Might any commissions or bonuses come your way in 2023? Do you anticipate selling an investment held outside of a tax-deferred account?

Vow to focus on your overall health and practice sound financial habits in 2023. And don't be afraid to ask for help from professionals who understand your situation.

Citations

1. U.S. News and World Report, September 1, 2022
2. irs.gov, November 23, 2021
3. irs.gov, September 6, 2022

We hope you enjoy our newsletter!

Please e-mail us any topics you would like to see covered in future newsletters.

We welcome your referrals and feedback. Please feel free to share this newsletter with your family and friends.

Please like us on Facebook and follow us on LinkedIn!

Managing Probate When Setting Up Your Estate

What can you do to help your heirs?

The probate process can be expensive for some estates. Settling an estate through probate can cost you both time and money. It could take up to a year for the estate to be settled, plus attorney's fees, appraiser's fees, and court costs may eat up as much as 5% of a decedent's assets. Probating an estate valued at $400,000 could cost as much as $20,000.[1]

What can you do to help your heirs have as smooth of a transition process as possible? There are a few steps that may help you along the way:

Joint accounts. Married couples may hold property as a joint tenancy. Jointly titled property includes a right of survivorship and is not subject to probate. It simply goes to the surviving spouse when one spouse dies. Some states allow a variation called tenancy by the entirety, in which married spouses each own an undivided interest in property with the right of survivorship (they need consent from the other spouse to transfer their ownership interest in the property). A few states allow community property with right of survivorship; assets titled in this way also skip the probate process.[2]

However, joint accounts can still face legal challenges. A potential heir to assets in a jointly held bank account may claim that it is not a "true" joint account but a "convenience account" where a second account holder was added just for financial expediency. Also, a joint account arrangement with right of survivorship may not match what's detailed in an estate strategy.[2]

POD & TOD accounts. Payable-on-death and transfer-on-death forms permit easy transfer of bank accounts and securities. If the original owner lives, the named beneficiary has no right to claim the account funds or the security. When the original owner passes away, all the named beneficiary needs to do is bring their ID and valid proof of the original owner's death to claim the assets or securities.[2]

Gifts. For 2022 the IRS allows you to give up to $16,000 each to as many different people as you like before owing taxes. By doing so, you reduce the size of your taxable estate. Gifts over $16,000 may be subject to federal gift tax (which tops out at 40%) and count against the lifetime gift tax exclusion. The lifetime individual gift tax exemption is currently set at $12.04 million. For a married couple, the lifetime exemption is now $24.12 million.[3]

Revocable living trusts. In a sense, these estate vehicles allow people to do much of their probate while alive. The grantor—the person who establishes the trust—funds it while they're alive with up to 100% of their assets and designating beneficiaries. A "pour-over will" may be used to add subsequently accumulated assets to the trust at your death, yet those assets "poured into" the trust at that time will still be probated.[4]
The trust owns assets that the grantor once did, yet the grantor can invest, spend, and manage these assets while they're alive. When the grantor dies, the trust lives on, becoming an irrevocable trust, and its assets should be able to be distributed by a successor trustee without having to be probated. The distribution is private, as opposed to the completely public process of probate, and it can save heirs court costs and time.[4]

Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional familiar with the rules and regulations.

Are there assets probate doesn't touch? Yes, there are all kinds of non-probate assets. The common denominator of a non-probate asset is a beneficiary designation, which allows these assets to pass either to a designated beneficiary or a joint tenant, regardless of what a will states. Common assets that won't involve probate include jointly owned assets with the right of survivorship.[2]

Make sure to designate/update retirement account beneficiaries. When you open a retirement savings account, you are asked to designate eventual beneficiaries. This stipulates where these assets will go when you die. A beneficiary designation commonly takes precedence over a will.[2]

Consider reviewing your beneficiary designations regularly to see if they need to be updated.

If you are married and have a workplace retirement plan account, your spouse is the default beneficiary of the account under federal law unless they decline in writing. Your spouse is automatically entitled to receive 50% of the account assets should you die, even if you designate another person as the account's primary beneficiary.[2]

To learn more about strategies to avoid probate, consult an attorney or a financial professional with solid knowledge of the estate process.

Citations
1. NOLO.com, 2022
2. Forbes.com, March 28, 2022
3. IRS.gov, February 4, 2022
4. SmartAsset.com, August 4, 2022

MARKET PERFORMANCE

01/01/2021 to 09/30/2022

DJIA ^DJI Down –21.10%

S&P 500 ^GSPC Down –24.98%

NASDAQ ^IXIC Down –32.98%

Russell 2000^RUT Down –27.12%

*Index performance does NOT include any fees (Gross of fees)

Source: http//finance.yahoo.com

Should We Reconsider What "Retirement" Means?

The notion that we separate from work in our sixties may have to go.

An executive transitions into a consulting role at age 62 and stops working altogether at 65; then, he becomes a buyer for a church network at 69. A corporate IT professional concludes her career at age 58; she serves as a city council member in her sixties, then opens an art studio at 70.

Are these people retired? Not by the old definition of the word. Our definition of "retirement" is changing. Retirement is now a time of activity and opportunity.

Generations ago, Americans never retired – at least not voluntarily. American life was either agrarian or industrialized and formalized retirement was not something they would have recognized. Their "social security" was their children.

After World War II, the concept of retirement changed. The typical American worker was now the "organization man" destined to spend decades at one large company. Americans began to associate retirement with pleasure and leisure.

By the 1970s, the definition of retirement had become rigid. You retired in your early sixties because your best years were behind you, and it was time to go. You lived your remaining years with an employee pension and Social Security checks, and the risk of outliving your money was low. Turning 90 was remarkable, much more than today.

One factor has altered our view of retirement more than any other. That factor is the increase in longevity. When Social Security started, retirement was the quiet final years of life; by the 1960s, it was a sort of extended vacation lasting 10-15 years; today, it can be a decades-long window of opportunity.

Working past 70 may soon become common. Whether by choice or chance, some may retire briefly and work again; others might rotate between leisure periods and work for as long as possible. Working full-time or part-time not only generates income. Another year on the job also may mean one less year of retirement to fund.

Perhaps we should see retirement foremost as a time of change – changing what we want to do with our lives. Preparing for change may be the most responsive move we can make for the future.

Horwitz & Associates

1650 Lake Cook Road
Suite 190
Deerfield, Illinois 60015

Phone: 224-632-4600
Fax: 224-632-4590
www.horwitzadvisors.com

EDWARD HORWITZ –ED@HORWITZADVISORS.COM
GERALD HORWITZ –GAH@HORWITZADVISORS.COM
ROBERT YOUMAN – RYOUMAN@HORWITZADVISORS.COM
JAKOB HORWITZ–JAKE@HORWITZADVISORS.COM
MARY KAY CARLETON–MKCARLETON@HORWITZADVISORS.COM
LESLEY WINSTON–LWINSTON@HORWITZADVISORS.COM
JODY ZIMNIEWICZ–JZIM@HORWITZADVISORS.COM
SILVIA LIU–SILVIALIU@HORWITZADVISORS.COM
PATRICK BROEBECK–PBBROBECK@GMAIL.COM