November – December 2022

Money Moxie®

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The Power of Tax Planning

Most people have experienced the process of gathering their tax information. The software, or tax preparer, then tells you how much you get back as a refund or what you must pay. This is just done retroactively. However, when tax planning is done proactively, it can make a world of difference now and in the future.

The main idea of tax planning is to protect your hard-earned money. You don't want to work hard just to see it slip through your fingers. American broadcaster, Arthur Godfrey, said, "I'm proud to pay taxes in the United States; the only thing is, I could be just as proud for half the money." We should all pay our fair share of taxes, but we shouldn't give our money away unintentionally. The purpose of money is first to provide security, then independence and freedom. Don't sacrifice your security because you didn't take the time to do proper tax planning. Here are some potential ways that tax planning can benefit you:

Tax-loss harvesting: selling assets that have losses in order to offset the sale of assets with commensurate gains, thus reducing tax liability. This can help keep you from going into a higher tax bracket or from paying extra Social Security or Medicare taxes.

401(k) contributions: Many people are underfunding their retirement plans (401(k)s, IRAs, Roth IRAs, etc.) and could either lower their tax bracket with pre-tax contributions or reduce future tax liability with Roth contributions. Contributing to your retirement plan is creating future security.

Roth contribution or conversion: Choosing to pay taxes now can help you avoid paying taxes in the future. If you believe your taxes will go up in the future, a Roth contribution or conversion is something you should consider.

Qualified Charitable Distributions: If you are over age 70 1/2, you can donate directly to a charity from your IRA and avoid paying any taxes on the distribution.

Social Security tax: Many people mistakenly believe they don't have to pay taxes on Social Security. Surprise! Up to 85% of it may be subject to tax. However, there are ways to reduce how much Social Security is subject to tax by reducing income. In one case, we were able to reduce income to the point where the client didn't have to pay any taxes, saving them approximately $500 per month without reducing their monthly income.

These are only a few ways to potentially save yourself thousands of dollars of hard-earned money. More importantly, these strategies can help you increase your feelings of security, independence, and freedom, now and in the future. If you wonder if you can benefit, contact one of our Private Wealth Managers for a tax planning session or contact a qualified CPA for tax advice.

Mikal B. Aune, CFP®
Vice President of Wealth Management

*SFS does not offer tax advice nor prepare tax returns.

Upcoming Podcasts

SFS releases new Power Up Wealth podcasts on timely and timeless financial principles. In the coming weeks, we will be doing a deep dive into each article written in this newsletter. So please tune in to learn more and to get to know our experts at SFS. Subscribe wherever you get your podcasts or listen at SmedleyFinancial.com.

Tis the Season!

By Sharla J. Jessop, CFP®

I love the warm feeling this time of year—a time of giving and sharing with others. Whether you are preparing a family dinner, planning a holiday party, or buying presents, it is easy to go overboard. Here are some reminders to help you manage your holiday spending.

Start with a budget.
How much can you spend without going into debt? Spending less is like giving a present to yourself. Statistics show that without a budget, the potential to spend more may have you relying on credit cards. Who says Christmas doesn't last all year?

Create a list – and stick to it.
After you determine how much you can afford to spend, a list helps you keep track of what you intend to spend on each person.

Avoid impulse purchases.
Let's be honest. How often have you been in a store and seen something wonderful someone would really enjoy? Me too! Even though you may already have a gift for that person, you emotionally justify the purchase. Avoiding these impulse purchases will help your finances all year.

Try something new.
Many of us have learned over the past two years that we value experiences over stuff. Experiences can be elaborate or simple. Spending time with someone you love doing something you enjoy has great value and doesn't have to cost a lot.

Following these tips can help you enjoy the season without financial regrets. I hope your holiday season is filled with happiness and joy! SJS

Data accessed Nov. 16, 2022.
[1] Base: All respondents (n=1,678)
[2] Base: All respondents (n=1,678)
[3] Base: Respondents who have decreased their holiday spending plans from a year ago (n=443)
[4] Base: All respondents (n=1,679)
[5] Base: All respondents (n=1,678)
Design credit: Cat VanVliet
Source: 451 Research's Voice of the Customer: Macroeconomic Outlook, Consumer Spending (Population Representative), Holiday Spending Preview 2022

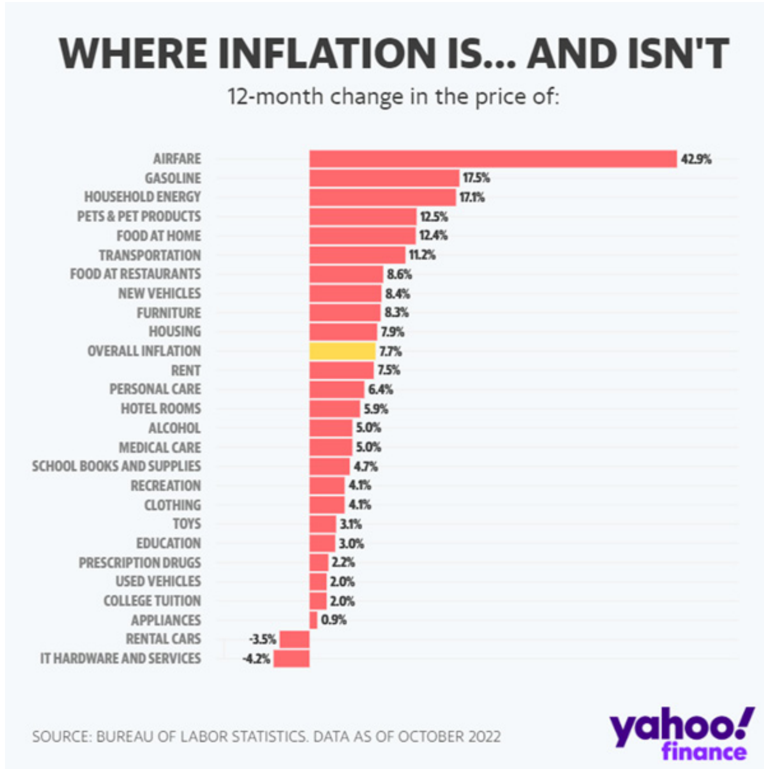
How Are Americans Doing?

By James R. Derrick Jr., CFA®

At the end of 2019, Americans held around $1 trillion in savings—not a small sum. The economy at that time was $21 trillion. That means Americans were earning roughly $21 trillion per year. Then came the pandemic, and everything changed.

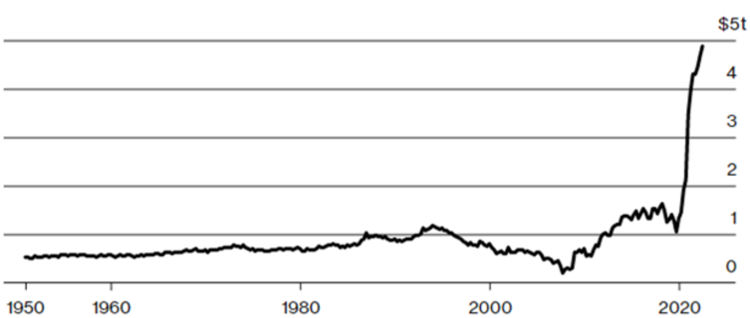
The Federal government began depositing stimulus money in a magnitude this country had never seen before. The Federal Reserve began buying assets in the financial markets to push up prices. The operations were a sum roughly 10 times greater than what was done in 2008-2009, and it was spent ten times faster.

In the decade preceding the recession of 2008, the savings rate was under 5%. After that recession, Americans became a bit more cautious and increased the percentage saved to 7%. In April 2020, the percentage of income saved reached over 30%. Apart from a few more stimulus-induced spikes, it has gradually slowed.



Cash Held by Americans

Currency and checkable deposits held by US households and nonprofits, in 2022 dollars



Sources: Federal Reserve, Bureau of Economic Analysis

There are a lot of inflation measurements and a lot of ways to slice it up. For example, "glass-half-full" people like to point out that inflation is close to zero if you take out food, energy, gasoline, and housing. That may be significant. However, it would mean more if we didn't have to pay for food, energy, gasoline, and housing costs. Instead of getting lost in those weeds, see the details in the graphic above. It includes a breakdown of where inflation is high and low.

These high prices, combined with higher interest rates, have lowered the savings rate to just 3.3%. This is the lowest level since the 4th quarter of 2007.

The excess money created a demand that outpaced the supply of goods available. This caused shortages of cars, appliances, etc. Next came price increases. According to the Consumer Price Index (CPI), the rate of inflation increased almost every month from May 2020 (0.2%) to June 2022 (9.1%). Since June, the rate of increase has come down. The current rate is 7.7%.

That brings us back to where we started. In total, Americans have a lot of cash still. It is why consumer spending is still high and economic growth is still positive. It is the reason that unemployment is not a significant problem. Employment is the reason that home prices have not collapsed. Despite all of the issues in the world, the U.S. economy is doing alright for now.

What you should know about

Social Security in 2023

By Sharla J. Jessop, CFP®

The 8.7% increase in Social Security benefits could create excess money for some retirees in 2023. An individual with a $2,500 monthly benefit can expect an increase of $217.50. That's an additional $2,610 annually. Make that excess count!

Building emergency savings provides a first line of defense, especially as inflation pushes costs up for necessities and services. Over the past couple of years, there has been a rise in consumer debt. This is a great time to pay down debt, especially debt tied to increasing variable rates.

There are also ways to manage your tax liabilities. Look at distributions from retirement accounts, such as IRAs. These distributions, combined with income from pensions and Social Security, may increase the tax basis of your Social Security benefits, causing you to pay taxes on a greater portion of your Social Security income. If your IRA distributions are more than you need, consider reducing the amount of the distribution. If you are at required minimum distribution age, implement strategies to help reduce your tax burden, such as making Qualified Charitable Distributions (QCD). This allows money to go from your IRA directly to a qualified charity of your choice. You do not pay taxes on the distribution, the distribution does not count as income (not included in IRRMA calculation), and the charity receives the benefit of the full donation.

Working between the age of 62 and full retirement age (FRA) comes with caveats regarding Social Security. If you receive Social Security benefits at age 62 and have earned income of more than $21,240, Social Security will take back $1 of every $2 dollars you earn over the earnings limit. If you reach FRA in 2023, the limit on your earnings for the months before your FRA is $56,520. If you earn more than $4,710 per month, Social Security will withhold $1 for every $3 earned over the limit.

Social Security and Medicare go hand in hand. Retirees paying Medicare Part B and Part D premiums will also see some relief. Medicare income-related adjustment amounts, or IRRMAs, may be smaller for high-income earners in 2023. The premium adjustment kicks in at a modified adjusted gross income of $97,000 for single tax filers and $194,000 for joint filers; this is increased from 2022. A two-year look back at tax returns determines if you will pay an extra premium charge. In addition to the increased brackets, premiums will be dropping by 3%. Tax filers falling below the IRRMA limit will see Part B premiums at $164.90, down from the 2022 premium of $170.10. See the chart for the 2023 IRRMA adjustment limits and premiums.

The bottom line – implementing planning strategies can help reduce tax burdens for 2023. Reach out to one of our Private Wealth Managers to discuss your specific situation. SFS

Tax Filing Status	Adjusted Gross Income	Part B Premium	Part D Premium
Single Married, Filing Jointly	Less than $97K Less than $194K	$164.90	$0
Single Married, Filing Jointly	$97K - $123K $194K - $246K	$230.80	$12.20
Single Married, Filing Jointly	$123K - $153K $246K - $306K	$329.70	$31.50
Single Married, Filing Jointly	$153K - $183K $306K - $366K	$428.60	$50.70
Single Married, Filing Jointly	$183K - $500K $366K - $750K	$527.50	$70.00
Single Married, Filing Jointly	$500K + $750K +	$560.50	$76.40

Who Wants to Save on Taxes?

By Jordan R. Hadfield, CFP®

Only one type of person complains about paying taxes, one with a heartbeat. We all recognize the importance of taxes, but Gerald Barzan said it best, "Taxation with representation ain't so hot either." Yes, tax evasion is illegal; but tax avoidance…that's wisdom. Legally reducing tax liability should be a financial advisor's specialty. This is why I'm so surprised by the number of financial and tax professionals who are unfamiliar with or do not utilize Qualified Charitable Distributions.

The Qualified Charitable Distribution, or QCD, is a powerful tax savings strategy available to individuals age 70.5 and older who donate to 501(c)(3) organizations. Examples of 501(c)(3) organizations include churches, schools, scientific organizations, and private foundations.

When you take a distribution from a tax-deferred retirement account, the distribution will be taxed at your marginal tax rate. However, if the distribution is from an Individual Retirement Account (IRA) and is sent directly to a 501(c)(3) organization, it qualifies as a QCD and becomes completely tax free.

For example, Elliott has a required minimum distribution from her IRA of $10,000. Her tax rate is 22% federal and 5% state. Elliott plans to donate $10,000 to a 501(c)(3) organization this year. If Elliott takes the $10,000 distribution, she will pay the tax and receive $7,300. When she makes her $10,000 donation, she will be $2,700 short.

However, Elliott has a wise financial advisor who tells her about the QCD. So, she sends her $10,000 distribution directly to the charity, and Elliott doesn't pay tax on the distribution at all. Elliott's required minimum distribution is satisfied for the year, she donated the desired $10,000 to charity, and her financial advisor saved her $2,700.

If you are claiming the standard deduction on your tax return, any donations to charities outside of a QCD will not lower tax liability. A QCD essentially allows you to "double dip" in tax savings. If you itemize your deductions, you may only be receiving a partial deduction for your charitable gifting. A QCD could provide a greater tax advantage.

It is important to understand that dollars donated via QCD above the annual Required Minimum Distribution (RMD) amount may not provide the same benefit. It's best to consult with a financial professional to help design a distribution plan that best meets your specific needs.

A QCD is only available to those with a taxable IRA. If you have a 401(k), 403b, or any other tax-deferred retirement account, speak with us directly. We may have a solution that will allow you to take advantage of this valuable strategy.

Every year, we educate financial and tax professionals regarding the QCD and how to report it. Too often, we see it reported incorrectly. You won't receive the benefit if you make a QCD and do not report it properly. In this example, if Elliott or her CPA doesn't understand how to report the QCD, she will needlessly pay the $2,700 in tax.

If you, your CPA, or your friends have questions about QCDs or how to report them properly, please contact us. Tax planning is our specialty, and maximum tax savings is our goal.

BY THE NUMBERS

a year-end review

by Parker Thompson

*As of 11/17/2022

Compared to its average, this number is low, which is a very healthy sign for the economy. The ratio of jobs to workers is currently about **2:1**.

220,000

initial jobless claims

WHAT DO THEY TELL US?

Statistics and numbers from our economy and markets give us a good idea of where we have been and where we might go next. Here's a look at the numbers.

+8.22%

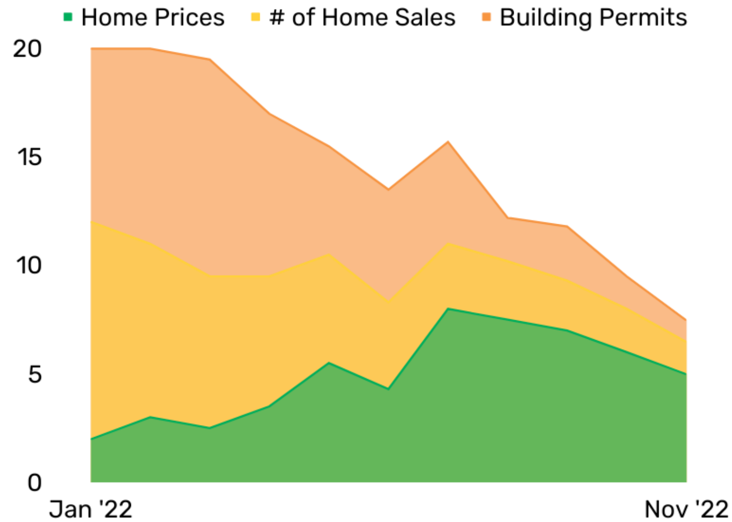
Wage growth compared to the same month last year.

NASDAQ
-29.61% YTD

DOW JONES
-8.31% YTD

S&P 500
-17.72% YTD

BONDS
-13.37% YTD



These are relative lines that show more of the trend rather than actual numbers for these important housing market indicators.

+3.1%

Personal savings rate. Down from 7.9% a year ago. That's nearly a 60% drop in savings in a year. It has usually averaged about 5-6% over the past two decades.

$14.2 TRILLION

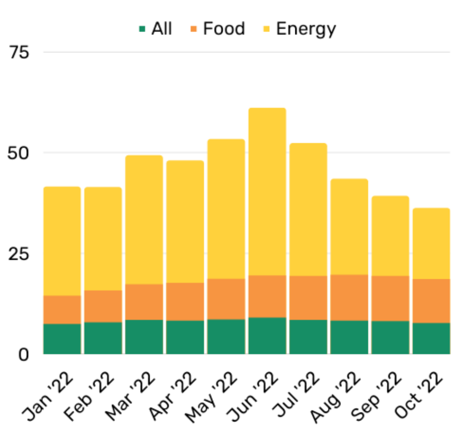
Consumer spending up 7.6% from last year this time. We usually see growth of 3-4% annually.

7.08%

Average mortgage rates have climbed this year as the Federal Reserve has raised rates.

40+
Years

Comparing the last 40+ years, the U.S. housing inventory remains at an all-time low with demand staying strong.



+7.7%

Overall inflation year over year broken out by sectors. Green is overall inflation, orange is food, and yellow is energy.

7%

As of October 2022, rents have climbed 7% over the last year but are slowing.

$3.93

Average price of gas in the U.S. is down from the $5 high this last summer.

Your SFS Team

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using strategies that work toward each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

Wealth Accumulation
- Managed Accounts
- Indexed Investing
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Stocks and Bonds
- Alternative Investments

Family Protection
- Term Insurance
- Whole Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance

Retirement
- Social Security Maximization Strategies
- Medicare Supplement
- Guaranteed Income (Annuities)
- Lifetime Income Planning

Disability (Injury)
- Short-Term Disability Insurance
- Long-Term Disability Insurance

Elder Care
- Long-Term Care Insurance
- Hybrid LTC

Employers and Self Employed
- Health Insurance
- 401(k) Plans

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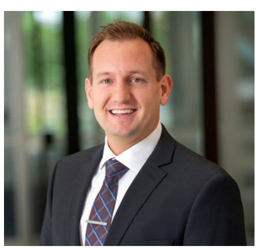

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