OnWealth
Financial Advice from Wealth Management Services

Craigen S. Schoen, CFP®
Managing Director
Raymond James & Associates, Inc.
112 Haywood Road
Greenville, SC 29607
864-289-2164
craigen.schoen@raymondjames.com

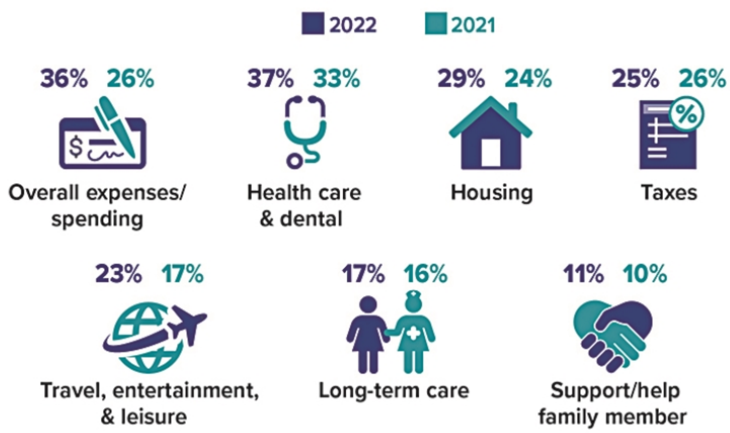
65.4%

Percentage of U.S. adults ages 55 to 64 who were working as of May 2022, nearly the same rate as in February 2020 (65.5%) before the pandemic. The rate dropped during the summer of 2022 due to seasonal variation, but this represents a strong and unexpected rebound for this age group. Many economists expected that near-retirees who left the workforce during the pandemic might choose early retirement.

Source: U.S. Bureau of Labor Statistics, 2022

Spending Higher Than Expected for More Retirees in 2022

Considering high inflation, it's not surprising that the percentage of retirees who said their spending was higher than expected increased in 2022 over 2021. These surveys were conducted in January of each year, so with inflation continuing to run high, it's likely that even more retirees may be experiencing unexpected spending.



Source: Employee Benefit Research Institute, 2022

November 2022

Donor-Advised Funds Combine Charitable Impact with Tax Benefits

A donor-advised fund (DAF) is a charitable account offered by sponsors such as financial institutions, community foundations, universities, and fraternal or religious organizations. Donors who itemize deductions on their federal income tax returns can write off DAF contributions in the year they are made, then gift funds later to the charities they want to support. DAF contributions are irrevocable, which means the donor gives the sponsor legal control while retaining advisory privileges with respect to the distribution of funds and the investment of assets.

Donors can take their time vetting unfamiliar charities and exploring philanthropic opportunities. They can wait to take advantage of matching fund campaigns, have money ready to aid victims when disaster strikes, or build up funds over multiple years to make one large grant for a special purpose. Grants can generally be made to any qualified tax-exempt charitable organization in good standing.

Under current law, there are no rules about how quickly money in DAFs should be granted. However, legislation has been introduced — the Accelerating Charitable Efforts (ACE) Act — that would impose a 15-year limit on the donor's advisory privileges, among other changes. You may want to watch for future developments if you are interested in using donor-advised funds to execute a charitable giving strategy. (Any legislation passed in 2022 likely would not take effect until 2023.)

Tax-Efficient Timing

Gifts to public charities, including donor-advised funds, are tax deductible up to 60% of adjusted gross income (AGI) for cash contributions and 30% of AGI for non-cash assets (if held for more than one year). Contribution amounts that exceed these limits may be carried over for up to five tax years.

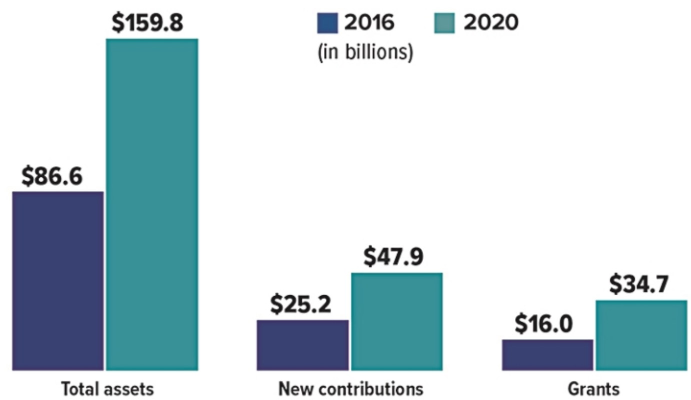
DAF contributions can be timed to make the most of the tax deduction. In an especially high-income year, for example, a larger contribution might keep a taxpayer from climbing into a higher tax bracket or crossing a threshold that would trigger Medicare surcharges or the net investment income tax.

Now that the standard deduction has been expanded ($12,950 for single filers and $25,900 for joint filers in 2022), many taxpayers don't benefit from itemizing deductions, including those for charitable donations. But with advance planning, it may be possible to bunch charitable contributions that would normally be donated over several years in a single tax year, ensuring that itemized deductions surpass the standard deduction.

A similar approach may appeal to pre-retirees in their peak earning years. Those who expect to be in a lower tax bracket and/or might claim the standard deduction during retirement might consider making deductible contributions to a donor-advised fund while they are still working.

Growth in Donor-Advised Funds

Contributions to DAFs accounted for about 10.1% of total U.S. charitable giving in 2020.



Source: National Philanthropic Trust, 2021

Gifting Appreciated Assets

Contributions to a donor-advised fund can be made with cash, publicly traded securities, and more complicated assets such as real estate, valuable art and collectibles, or a stake in a privately held business, offering a convenient way to gift appreciated assets. Fund sponsors typically have experience in evaluating and liquidating donated assets (a qualified appraisal may be needed). This way, a donor can make a single contribution to a DAF that eventually benefits multiple charities, including smaller organizations that are not able to accept direct donations of appreciated assets.

Giving appreciated assets to charity can provide lucrative tax savings. A donor may qualify for a tax deduction based on the current fair market value of the contribution while helping reduce capital gain taxes on the profits from the sale of those assets. This strategy may be helpful when family businesses or shares of privately held companies are sold, or any time a larger tax deduction is needed.

DAFs have fees and expenses that donors giving directly to a charity would not face. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Year-End 2022 Tax Tips

Here are some things to consider as you weigh potential tax moves before the end of the year.

Set Aside Time to Plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

Defer Income to Next Year

Consider opportunities to defer income to 2023, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services in order to postpone payment of tax on the income until next year.

Accelerate Deductions

Look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year (instead of paying them in early 2023) could make a difference on your 2022 return.

Make Deductible Charitable Contributions

If you itemize deductions on your federal income tax return, you can generally deduct charitable contributions, but the deduction is limited to 50% (currently increased to 60% for cash contributions to public charities), 30%, or 20% of your adjusted gross income (AGI), depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.)

Increase Withholding

If it looks as though you're going to owe federal income tax for the year, consider increasing your withholding on Form W-4 for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck.

Save More for Retirement

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can help reduce your 2022 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2022, you can contribute up to $20,500 to a 401(k) plan ($27,000 if you're age 50 or older) and up to $6,000 to traditional and Roth IRAs combined ($7,000 if you're age 50 or older). The window to make 2022 contributions to an employer plan generally closes at the end of the year, while you have until April 18, 2023, to make 2022 IRA contributions. (Roth contributions are not deductible, but qualified Roth distributions are not taxable.)

Take Any Required Distributions

If you are age 72 or older, you generally must take required minimum distributions (RMDs) from your traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required. Annual distributions from inherited retirement accounts are generally required by beneficiaries (as well as under the 10-year rule); there are special rules for spouses.

Weigh Year-End Investment Moves

Though you shouldn't let tax considerations drive your investment decisions, it's worth considering the tax implications of any year-end investment moves. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

More to Consider

Here are some other things to consider as part of your year-end tax review.

Consider postponing income and/or accelerating deductions if

- You expect to be in a lower tax bracket next year (perhaps you'll retire next year)
- Your itemized deductions are greater than the standard deduction this year
- You want to delay payment of tax

Consider accelerating income and/or postponing deductions if

- You expect to be in a higher tax bracket next year (perhaps you have a lower income this year)
- The standard deduction is greater than your itemized deductions this year
- You're subject to alternative minimum tax this year and certain deductions are disallowed

Four Tips for Keeping Heating Costs Down This Winter

With the prices for gas, oil, and electricity continuing to soar across the country, consumers are facing another winter of high heating bills. According to the National Energy Assistance Directors' Association, the average cost of home heating is estimated to increase by 17.2% this season.[1] Here are some tips to help you keep your heating costs down.

Have your heating system serviced. Make sure that your heating system is working properly by having it serviced by a professional every year. In addition, keep your furnace filter, air registers/vents, baseboard heaters, and/or radiators clean and free of dust and debris in order to ensure that your heating system is operating at maximum efficiency.

Keep the heat in. To prevent heat from escaping your home, inspect windows and doors for air leaks and apply weather stripping, caulking, and/or spray foam around drafty areas. Make sure that all areas of your home are properly insulated, especially attics, basements, crawl spaces, and outside walls. If you have a fireplace, keep the damper closed when it's not in use and refrain from using it on extremely cold nights. Leave window curtains, shades, and blinds open during the day to allow sunlight in to warm your home, and close them at night to retain the heat inside your home.

Turn down your thermostat. Turning down your thermostat even just a few degrees can help you save on your heating bills. According to the Department of Energy, during winter months you should set your thermostat to 68 degrees when you are at home and awake and set it lower when you go to sleep at night or are away from home. To make it easier, you can install a programmable thermostat that allows you to preprogram your heat to a lower temperature at certain times of the day. For optimum temperature control, there are also smart thermostats that allow you to remotely control the temperature in your home directly from a smart phone or computer.

Schedule a home energy assessment. A home energy assessment is conducted by a home energy professional and usually involves a room-by-room examination of your home and past utility bills. A professional energy assessment provides detailed tips on how you can heat your home more efficiently and save money on your energy bills. Some utility companies will cover the cost of a professional energy assessment or offer discounts. Contact your utility company or visit energy.gov for more information.

1) National Energy Assistance Directors' Association, 2022

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