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Don't miss our blog www.street-cents.com

All about stimulus base effects and the coming comparable (hurdles)

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In doing research for this article, we found some absolutely amazing graphs that hopefully make this subject matter clearer, as it can be very confusing.

No doubt you recall the March through May of 2020 stimulus in the form of business bridge loans or PPP loans which in fact helped many businesses stay afloat during the lockdown associated with Covid. Those funds were a direct injection into many businesses which helped garner higher employment than maybe would have otherwise occurred.

(see **Stimulus,** Page 2)

Look back tax savings

Spousal IRA, SEP, HSA... do before filing due date April 18 to possibly lower your 2021 taxes

With tax season officially underway, actually nearing an end, the official filing date for non-extension regular Form 1040 Filers is April 18, 2022 (this year) for year 2021 tax filings, just a few weeks out. There are a few tax saving ideas that even with the turn of the calendar can be implemented to possibly help last year's income taxes.

(see **Deadline,** Page 4)

Estate, gift planning update

Annual gifting amount, estate tax update

The annual gift amount has been lifted, for the year 2022, by $1,000 to a new $16,000 level. What this means is that a person/doner may basically give another person (almost anyone), most likely a relative or even more likely a child, up to $16,000 as a giver without having to file any type of estate tax return.

(see **Gifting,** Page 5)

Stimulus base effects: standard deviations

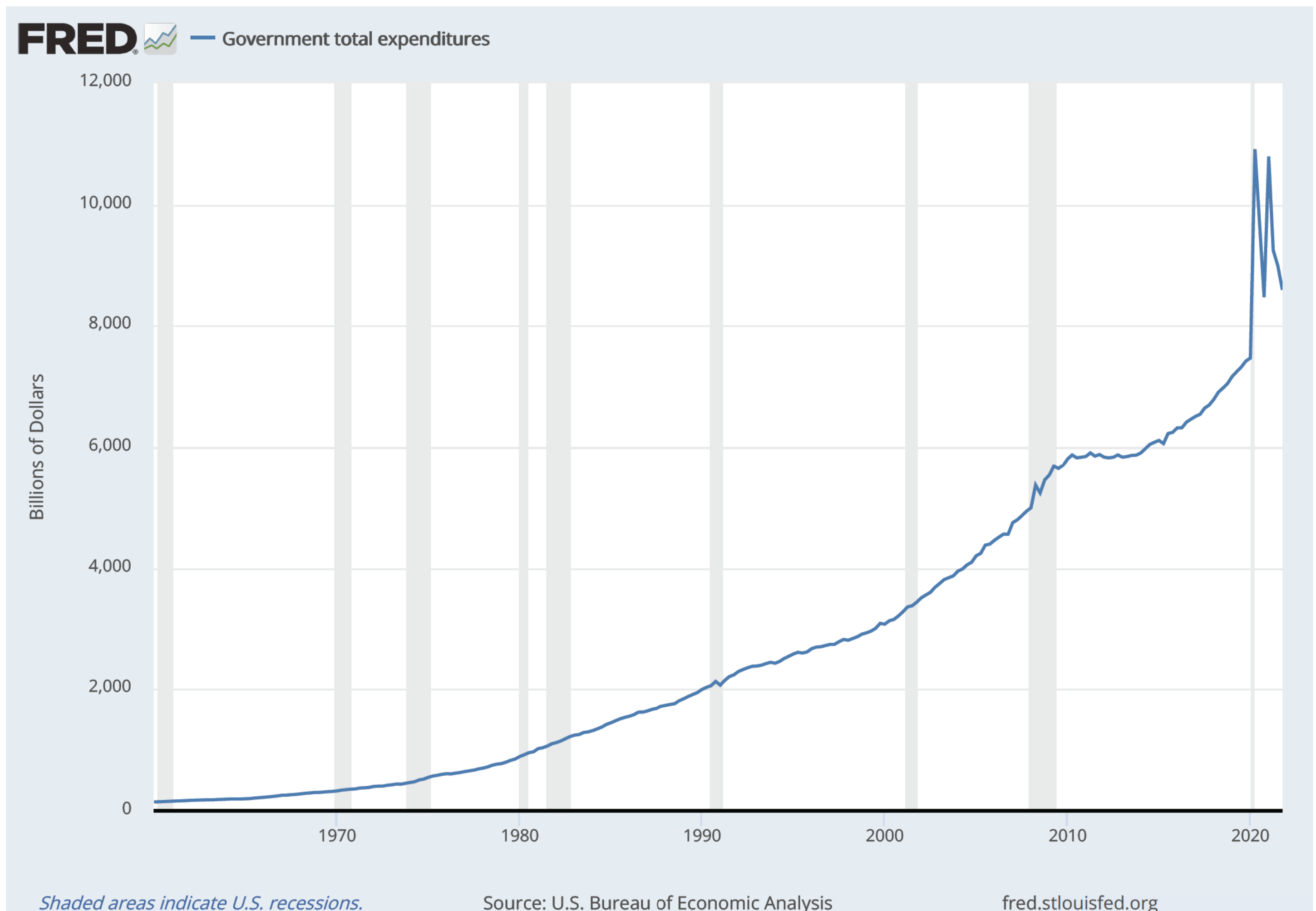
(continued from Page 1)

Then approximately one year later and near exactly one year ago of the publishing of this newsletter, a two fold stimulus hit our economy but this time it was injected directly into consumer pocketbooks. First there was a $600 stimulus, seemingly unnoticeable maybe to some at the time, then there was a second $1,400 per person broad stimulus pushed into couples-that-qualify pockets. Upon a deeper review, this seemingly unnoticed stimulus was much larger than many, including ourselves, may have noticed at the time.

Take note at this very long term government spending graph from the St. Louis Fed, Fred Research database (see below). What sticks out is the normal inflation like growth for most of the time. Then the two very larger than normal jumps in government spending in the last two years.

In mathematical terms, those very large jumps would be called standard deviations. One standard deviation is just a normal fluctuation, as the eye can easily see these were huge variations from the normal. This is certainly not a statement on policy, nor is it meant to be. This is strictly an observation and a cause and effect.

(see Page 3)



Comparable hurdles: difficult for capital markets

(continued from Page 2)

The graph below is an actual reported sales number from a very large retailer. We could have grabbed almost any report in various industries and it would have looked very similar. Take note that this graph is in actual dollars rather than percentages, those percentages would be in the 25 to 35% change.

All told this time last year there was over $1 trillion that entered the public' pockets. Now one year later it's all about the base effects of comparable against the deposits.

With such a huge base effect, comparable hurdles to be overcome in the next few months to quarter, it is not surprising that capital market participants are having a difficult time determining what the actual growth rate is or how much the comparable will lead to a slowdown. The symptoms are jittery capital markets.

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The good news is we have a very definable moment in time when these hurdles will occur and the even better news is they were relatively short lived, meaning we will get through them hopefully in short order but in the likely immediate term, the hurdles are right in front of us.

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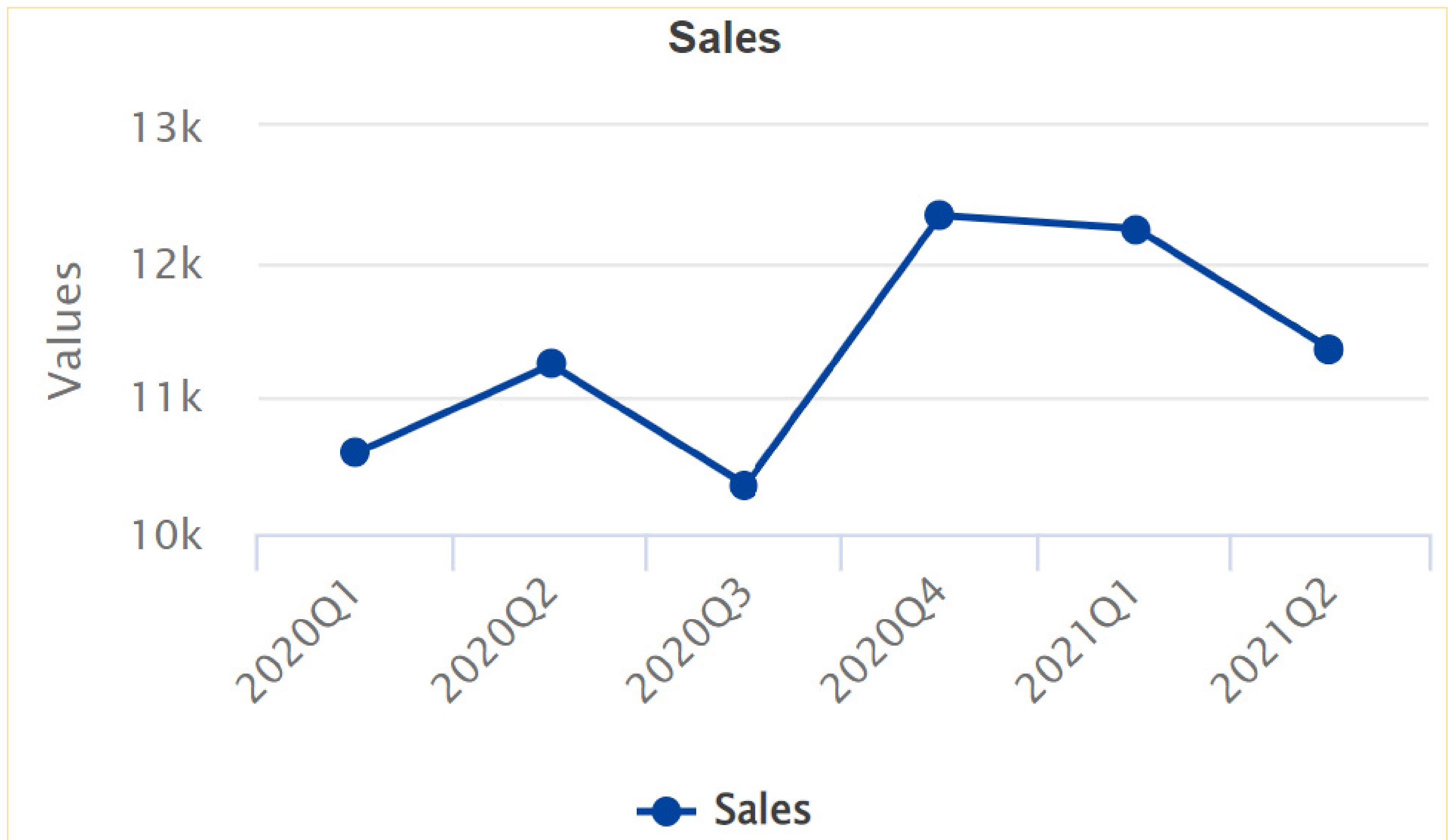

Deadline for 2021 filing, April 18, 2022

Look back tax savings in SEP, Spousal IRA, HSA

(continued from Page 1)

Self Employed Pension plan-the SEP as it's commonly called is a great vehicle to offset income that is not of the W2 type. Think consulting income.

The neat part about a SEP is it's very easy to set up and can be made to a current IRA account, with proper coding. A SEP contribution will allow you to contribute on top of 401K maximum contribution limits up to a maximum of $58K maximum combined or all SEP contribution if you qualify, see next.

The key to implementing this strategy is to have non-W2 income, think again consulting income such as 1099, and after adjustments to that income such as expenses a possible 25% pretax contribution made against that adjusted gross income amount. This contribution can be made up to your filing extension deadline.

The Spousal "Qualified IRA" is another handy tool to use if one of the spouses does not have any form of a retirement plan. Any, means any, if there is a pension plan or any retirement plan that the spouse is a participant of this qualification will not be allowed.

Unlike the SEP, a spousal IRA must be made before the regular filing date so not much time if this is applicable. Also unlike the SEP, you do not need to have non-W2 income and the maximum deduction for 2021 is $6k ($7k if you are over age 50) but you must not be covered by ANY other type of retirement plan.

Lastly, one our favorite plans that is also available for our minted term "reach back" to last years tax savings is the HSA. One of the great parts of the HSA is you only need a high-deductible health insurance plan. Rather than attempt to determine if your plan qualifies, just contact your carrier as they will most definitely know.

Another terrific part of the HSA, unlike any of the prior pre-tax retirement vehicles, is of course the contribution is deductible, just as the others, but upon use for medical expenses, the funds are NOT taxable upon distribution. Wow!

Your maximum contribution for 2021 is $3,600 per person or $7,200 per family. Funds still grow tax deferred but your break for specific usage in no tax upon distribution/use.

Planning trick: On the HSA, a neat trick we like to utilize/recommend is think about bypassing the use of these funds and allow them to grow and compound tax free as we feel confident there will be ample expenses to offset in the future.

Your deadline for the HSA is similar to the Spousal IRA, a hard normal regular Form 1040 date, for 2021 again April 18, 2022.

Always check with your tax advisor on any and all of these techniques, as we are not CPA's but wanted to remind you of several possible "reach back" to last year's taxes savings!

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Estate, gift planning update

Gifting amount increases, estate tax exemption level increases

Gifting: *In 2022, married couples may donate up to $32,000 to children.*

Estate tax: *Family estate tax exemption is $24.12 million for married couples for 2022.*

(continued from Page 1)

Married couples donating to their child, as an example, would be able to gift up to $32,000 in 2022. This gift tax exclusion resets every year and as mentioned above increases frequently for cost-of-living adjustments (COLA).

This gift amount, as an example, could be used to help a younger worker fund his or her Roth, as mentioned in our Roth tips and tricks article also in this newsletter. Also remember, everything counts under this gift amount, meaning if a parent gifted cash of this amount and then other types of gifts one may be in violation of the annual amount so be sure to keep tabs on any unintentional overages that can sometimes occur.

Updated estate tax amount

The federal estate tax exemption level for 2022 has increased to $12.06 million. For married couples, the family estate tax exemption amount is therefore $24.12 million with minor appropriate planning.

As a reminder estate tax is assessed on the total equity value of an estate upon the death of the final owner. Estate taxes are a completely different tax than federal income taxes and once again are assessed or reviewed upon death of the last surviving married participant.

Last year certainly garnered many headlines of possible changes in much of the estate tax laws. In all fairness, we fielded many questions and thankfully once again stuck to our mantra of until it is law, one should be very careful at making preemptive adjustments.

There certainly can be changes in the future but again short of knee jerk reactions, we tend to like for law mandates to be made for reaction, rather than rumors.

We hope you enjoyed our review are these two updated amounts as it relates to annual gifting and estate planning.

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Financial, retirement planning trick

for those early in workforce, Roth contribution for young worker

We all know the positive effects of compounding especially over longer periods of time. Combine long term compounding with favorable tax policies and we have a wonderful strategy.

First acted on from you in the field but a wonderful idea and fantastic financial planning tip or trick however you want to call it, helping those early in the workforce make a contribution to a Roth.

As a quick review a Roth is an after tax contribution and currently has a $6,000 maximum with a $1,000 catchup for those aged 50 and over and is only available within strict income limitations.

In order to make a contribution to a Roth, one must have at least that amount of earnings to contribute. Said another way, if you make less than $6,000 or $7,000 per the above contribution you can only contribute up to that amount.

Another very favorable part of Roths are while growing tax deferred, under current tax law, there are no mandatory distributions for the owner of the Roth. This is far different from other type of retirement assets, especially IRA's and occurs mainly because there are no deductions to a Roth contribution at the time of contribution.

Given the fact that Roth's are after tax contributions, they are most appropriate for workers that are in lower tax brackets at the moment. As a worker's income increases beyond the Roth contribution levels the automatic phaseout of a Roth contribution is actually a good thing as a pre-tax contribution in higher tax brackets is much more financially prudent.

It's important to be aware that an employee should not contribute beyond the maximum amount for a 401K, which in the current year is $20,500 for folks under 50 and $26,500 for folks over 50 including their Roth contribution.

Here is the trick/sizzle! Most likely if a young worker is making a very nominal amount, and possibly still living at home, they will not have the cash flow to contribute to any type of retirement plan. But if someway somehow they can make a Roth contribution at least up to their earnings at a very young age the long term positive consequences of this can obviously be fantastic.

Contributions can be encouraged by the parent or better yet, the grandparent, to the child or other individual. Contributions may even be in the form of a gift to the child but directly into their Roth for long term savings and very favorable tax strategies. See our Annual Contribution Limit Article for the combining of these two strategies.

In closing, here are some numbers behind the strategy and the compounding. If a 17 year old was somehow able to get $6,000 in a Roth (one time!) and earn 8% a year at age 66 he/she would have about $191,000.

If that same 17 year old were somehow able to get $6,000 a year until he or she was 23, (five years), and had the same 8% compounding until he or she was 66 there would be a nest egg of just under $1,000,000.

That $1,000,000 would not be subject under current tax laws, to mandatory required minimum distributions (RMD's) nor again under current tax laws would it be taxable income upon distribution. Pretty nifty trick!

Be sure to dot the I's and cross the t's with your tax advisor so as not to trip up on one of the limitation but if an elder is thinking of gifting to a younger, this strategy may be just the ticket.

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Back to basic financial planning review

Foundation of planning in steps of importance course-like series

This fun series is a Financial Planning Series that is meant to start from the very ground floor of basic financial planning and build on to more advanced techniques and strategies.

The goal of this series is a course like experience in financial planning that will touch every step in the process in order of importance. When complete, we will be adding videos and making into a full planning course/workshop.

Those of you that are long time clients have likely heard much of this before but may get an occasional reminder.

1. Emergency fund
2. Protection planning
3. Debt planning
4. Retirement planning

If you know someone (kids, friends, relatives or the like) that may find this series useful, we ask you share, much like we did with the stimulus explanations during the pandemic. We are using our venue to give back and help as many as possible while hopefully having fun and keeping a sometimes-boring subject matter educational and entertaining.

Over the last quarter, we presented the first four parts of our fun and exciting back to basics series. Here is a summary of each we hope you enjoy.

Emergency fund

Emergency fund: the foundation point of all financial planning. In general, a three to six month stash of safe cash that is not meant to change in value and can be accessed extremely quickly at any moment in time.

Protection planning

Protection planning: a review of the major necessary protection areas of our lives: heath, home, auto, life and liability protection including the PLUP or personal liability umbrella policy.

Debt planning

Debt planning: the good (yes, some debts can be good), the bad and the ugly types of debts and debt planning.

Retirement planning

Retirement planning: key macro areas for the blocking and tackling of retirement planning, with starting early as one of the most important items, followed by aggressive allocations in the early stages, with moderation as assets become larger.

We look forward to continuing our series near the midpoint of the coming months and hope you are enjoying and sharing with those that may find this interesting.

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The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investments may be appropriate for you, consult your financial advisor prior to investing.

Parting thoughts for you...

Let us know if you like our new format. We purposefully attempted to keep the articles shorter and have more articles from very different subjects and attempted to have something of interest no matter your age or chapter in life.

Our main article, all about the comparable, which is also by far the longest, is more of a follow-up to our prior Q1 main newsletter article analysis of a slowdown. We encourage you to carefully read this article as this is most likely what we will be experiencing over the coming months and possibly quarters and hopefully give us some anticipatory knowledge of the headlines and market movements.

In a tax related subject matter, it's not too late to reach back. In the 2021 tax article paired with helping early employment members fund a Roth are great tax ideas we hope you enjoy.

Lastly, we thank you for your wonderful comments and support on our back-to-basics series which is now up to four parts and has garnered great attention and tons of electronic sharing. We are so happy you guys are sharing and thank you once again for the compliments. We look forward to continuing on to more advanced topics monthly!

Have a great tax season and talk to you in the summer. JK

Dates:

April 17, Easter
May 8, Mother's Day
May 30, Memorial Day
June 19, Father's Day