First Quarter 2023

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FINANCIAL IDEAS FOR TODAY AND TOMORROW

Footnotes

Tips for Working Beyond Retirement Age

You may be one of many Americans who plan to work into retirement. Some report they need to work because their savings declined over the past several years, while others say they choose to work because of the greater sense of purpose and engagement that working provides.

Whatever your reason for continuing to work into retirement, here are some tips to get the greatest benefit from your efforts.

Consider delaying Social Security. You can start receiving Social Security retirement benefits as early as age 62, but if you continue to work it may make sense to delay taking it until as late as age 70. This is because your Social Security benefit may be reduced or be subject to income tax due to your other income. In addition, your Social Security monthly benefit increases when you delay starting the retirement benefit. These increases in monthly benefits stop when you reach age 70.

Pay attention to bracket-bumping. Keep in mind that you may have multiple income streams during retirement that can bump you into a higher tax bracket and make other income taxable if you're not careful. For example, Social Security benefits are only tax free if you have less than a certain amount of adjusted gross income ($25,000 for individuals and $32,000 for married filing jointly in 2022), otherwise as much as 85% of your benefits can be taxable. Required distributions from pensions and retirement accounts can also add to your taxable income. Be aware of how close you are to the next tax bracket and adjust your plans accordingly.

Be smart about health care. When you reach age 65, you'll have the option of making Medicare your primary health insurance. If you continue to work, you may be able to stay on your employer's health care plan, switch to Medicare or adopt a two-plan hybrid option that includes Medicare and a supplemental employer care plan.

Look over each option closely. You may find that you're giving up important coverage if you switch to Medicare prematurely while you still have the option of sticking with your employer plan.

Consider your expenses. If you're reducing your working hours or taking a part-time job, also consider the cost of your extra income stream. Calculate how much it costs to commute every day, as well as any other work-related expenses. Now consider how much all those expenses amount to in pre-tax income. Be aware whether the benefits you get from working a little extra are worth the extra financial cost.

Time to downsize or relocate? Where and how you live can be an important factor determining the kind of work you can do while you're retired. Downsizing to a smaller residence or moving to a new locale may be a good strategy to pursue a new kind of work and a different lifestyle.

Focus on your deeper purpose. Use your retirement as an opportunity to find work you enjoy and that adds value to your life. Choose a job that expresses your talents and interests, and that provides a place where your experiences are valued by others.

As always, should you have any questions or concerns regarding your tax situation, please feel free to call.

Jennifer Decker, CPA, is the partner in charge of our Cedar Rapids office.

Correcting Common Financial Mistakes

You're working at the office, getting stuff done around the house or hanging out with family when a phone call, email or text alerts you that something happened with your finances. When a not-so-nice financial event hits, don't let it take you down. Here are some common miscues and steps to remedy each situation:

An overdrawn bank account. First, stop using the account to avoid additional overdraft fees. Next, manually balance your account by reviewing all posted transactions. Look for unexpected items and fraudulent activity. Then call your bank to explain the situation and ask that all fees be refunded. Banks are not obligated to refund fees, but sometimes they will. The next steps vary based on the reason for the overdraft, but ultimately your goal is to bring your account back to a positive balance as soon as possible.

A missed credit card payment. Make a payment as soon as you realize you missed it. If possible, consider paying off the entire outstanding balance because interest will be assessed on old AND current charges. Then call the credit card company to get them to refund the late fee and interest charges. The customer service representative will look at your account, see the payments and be more willing to do as you request. As long as you aren't habitually late with payments, you can usually get the fees eliminated or reduced.

A tax return that didn't get filed. Gather all your tax documents as soon as possible, and file the tax return even if you can't pay the taxes owed. This will stop your account from gathering additional penalties. You can then work with the IRS if necessary on a payment plan. The sooner you file, the sooner the money will be in your bank account if you're due a refund. If you wait too long (three years or more), any potential refunds will be gone.

A missed estimated tax payment. Estimated payments are due in April, June, September and January each year. If you are required to make estimated payments and miss a due date, don't simply wait until the next due date. Pay it as soon as possible to avoid further penalties. If you have a legitimate reason for missing the payment, such as a casualty or disaster loss, you might be able to reduce or even eliminate your penalty.

Remember that mistakes happen. When they do, stay calm and walk through correcting the situation as soon as possible.

Tax Quiz - The Very First Form 1040

While Abraham Lincoln introduced the country to income tax to fund the Civil War, the modern 1040 individual income tax form was introduced in 1913. Here's a short quiz to see how well you know what was included on this very first tax form.

What was the due date of the initial 1040 tax form?
March 1, 1914. The first year Americans were required to report their income was 1913, with the tax return due March 1, 1914. Failure to file on time could lead to a fine of between $20 and $1,000. A 30-day extension could be granted by the tax collector because of sickness or absence. Today we have an additional 45 days to file our tax return (March 1 to April 15) and can file for a six-month extension.

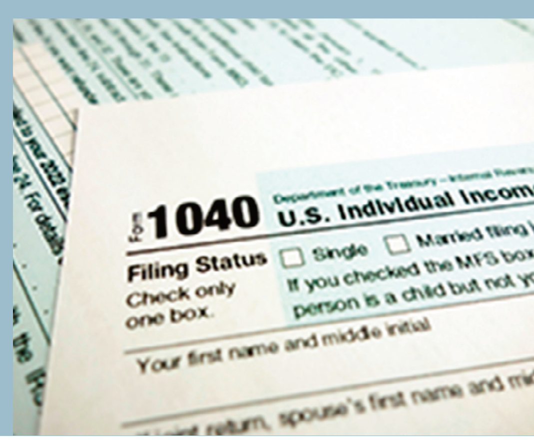
What tax rate was applied to most incomes on this first Form 1040?
The tax rate applied to most 1913 tax returns was 1%.

If you had taxable income that exceeded $500,000, you became subject to the Super Tax. What was the rate on these earnings?
6%. The maximum tax rate of 6% applied to taxable income that exceeded $500,000. The 1913 tax brackets were 1%, 2%, 3%, 4%, 5% and 6%, compared to our current tax brackets of 10%, 12%, 22%, 24%, 32%, 35% and 37%.

Was a marriage penalty built into the original Form 1040?
Yes. If single, your exemption amount was $3,000. If you lived with your spouse, your exemption amount was only $4,000. If you and your spouse worked (a rare event in 1913), you could divide the $4,000 exemption any way you wanted to minimize your taxes.

Name items that weren't taxed on the original Form 1040 but are taxed on today's form.
The most common untaxed items were dividends and net earnings from corporations. The double taxation of corporate earnings we experience today started in 1954.

True or False: All the original tax returns required a signed affidavit before an authorized officer of the government before being filed.
True. All properly filed tax returns required affidavits made before an officer authorized by law to administer an oath of accuracy. This could be a justice of the peace, a magistrate or a certificate from a court clerk. Mailing in your tax return was not an option.



Three Rules to Jumpstart Your Savings

While U.S. savings habits are improving, nearly 50% of Americans have no more than $500 in the event of an emergency. If you want to ramp up your savings, every little bit helps. Consider these three rules to jumpstart your savings and start building wealth.

1. Create a budget. Track your expenses for one month to discover how much you really spend. Be sure to track everything, including food, utilities, household items and debt payments. Take your total expenses and multiply it by six. This the amount of money to aim for saving in your emergency fund.

2. Make household debt your enemy. If you're juggling credit card, vehicle and mortgage payments, your savings accounts may be starved. And without enough cash to cover emergencies, many people resort to credit cards and lines of credit to cover unforeseen expenses. So the debt cycle continues. Since you now have a budget, you can see exactly how much debt you have to pay off.

3. Review your income. With your current level of income, calculate how long it will take to pay off all your debt, then build up your six-month emergency fund. Depending on your financial goals, consider whether it makes sense to start a side gig, or continue upgrading your current skillset, to continue growing your income.

How to Stay On Track

Treat your savings like a monthly bill. Once you have an emergency fund, treat your savings as your most important monthly bill. Write a check to your savings account first, or have money automatically deducted from your checking account or paycheck and transferred to your savings account.

Contribute to retirement accounts. Tax-deferred retirement accounts offer a smart way to save money for retirement. If your employer offers a 401(k) or SIMPLE retirement plan, contribute as much as you can. If your employer doesn't offer a plan, consider opening an individual retirement account (IRA). The money you contribute to a retirement account can reduce your taxable income and grow tax free until withdrawn.

Control your spending. When it comes to saving, think control. For example, control the use of your credit cards. The amount you pay each month in finance charges could go towards savings instead. Also control the use of your ATM card. Get in the habit of giving yourself a regular cash allowance, and try to live with it.

Finding Hidden Tax Deductions

Are you paying taxes on your commercial real estate sooner than you need to? A cost segregation study can identify avenues to front-load your depreciation deductions, defer tax liabilities and maximize your cash flow now and in the near future.

What is a Cost Segregation Study?

When you buy or build commercial property, it typically depreciates over 39 years (27.5 years for residential properties). A cost segregation study breaks the property down into components and reclassifies those components into proper asset classifications with shorter depreciation lives. This shortens the tax life of your assets of 27.5 or 39 years to shorter terms (i.e., 5, 7 or 15 years), allowing you as a business owner to defer taxes and have more cash on hand today.

To qualify for a cost segregation study, you must have new buildings under construction, existing buildings undergoing expansion or renovations, commercial properties that you purchased or leasehold improvements or “fit-outs”.

Hogan - Hansen’s cost segregation professionals are well-versed in providing assistance in even the most complex situations. This, combined with our expertise in tax code, ensures you get a tax deferral strategy customized to your business’s needs that provides the cash you need in early years of asset ownership.

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RETURN SERVICE REQUESTED

Despite the forecast,
live like it's spring.

- LILLY PULITZER

It's never too late to be what you might have been.

- GEORGE ELIOT

If you tend to a flower, it will bloom, no matter how many weeds surround it.

- MATSHONA DHLIWAYO

NOTABLE QUOTES

When things go wrong, don't go with them.

- ELVIS PRESLEY

This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details and/or professional assistance.

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