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clientalert
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Tax planning: a life changes checklist

For the unwary, major life decisions can create a large and unexpected tax bill. Here are six life changes with tax implications that could surprise you.

- **Getting married or divorced**
  Marriage means a new tax status, new deduction amounts and income limits and a potential marriage penalty. Divorce has added complexity including untangling assets, alimony, child support and dependents.

- **Growing your family**
  Bringing home a new child comes with some tax breaks which can help offset the new expenses. If you are adopting, you get an additional tax credit.

- **Saving or paying for college**
  There are many different tax breaks such as the American Opportunity Tax Credit, 529 plans and student loan interest deductibility. It can be tricky, so work with a tax professional.

- **Changing jobs or getting a raise**
  Each additional dollar you earn gets taxed at your highest rate and might even bump you to the next bracket. If you lose your job, accrued vacation or a severance package will likely add to your taxable income.

- **Buying a house**
  Down payments made with some Roth IRA funds or 401 (k) loans can have tax advantages. There are also tax credits for making energy-saving improvements. Deductions are available for property taxes and interest payments, if you itemize.

- **Planning for retirement**
  Some factors to consider include employment status, current income, available cash, future earnings and tax rates, retirement age and Social Security. Don't omit key details from your plan and consult a professional about this complex and important decision. ♦

Family Financial Empowerment Issue:

We encourage you to start a dialogue on finances and share this special edition with family members who may find this information useful through the various stages of life.

How to raise a financially savvy child

If you have children (or grandchildren) you can give them a jump-start on becoming financially responsible adults. While teaching your child is easier when you start early, it's never too late. Here are some age-relevant suggestions.

- **Preschool**—This is the time for basic concepts like numbers, saving and spending. You can show your child bills and coins and explain how a dime is worth more than a penny. Play shopping and let your preschooler match the money to a price tag. Get them a piggy bank to start saving coins.
- **Grade school**—Consider starting an allowance. Replace the piggy bank with a savings account and have them deposit a portion of each allowance. Teach them comparison shopping and include them in family discussions about vacations and other major financial decisions.
- **High school**—Guide them in getting a part-time job to build their savings. Give them responsibility for paying for their own expenses like going out with friends. Introduce the concept of investing, explaining stocks, mutual funds, CDs and IRAs. If college is the goal, include them early on in financial planning decisions.
- **College**—Teach them about borrowing. They will be getting credit card offers so warn them of the dangers of running up a bill and not paying it off each month. Talk about their credit score and how it affects future plans like buying a house. Talk about retirement and the importance of building a retirement account when they get their first job.

Understanding money is a valuable life skill to teach your child, at every age and stage of life. ♦

It takes two: how to keep the peace while managing money

By Kelly Raso, CPA

A new marriage is filled with hopes and dreams but also many challenges. Managing money is one of them. It is important to have good communication regarding savings goals and spending habits. Establishing a steady plan by having a budget and living within your means helps achieve those goals while also allowing for "fun" spending money.

How to go about it? Here are some tips:

- **Establish the fundamentals**—Know your financial standing as a couple by identifying your assets and liabilities. Then work on these three basic principles: reduce debt, pay yourself first and establish an emergency fund.
- **Set joint priorities**—Do you want to see the world, while your partner wants to save for a home? Agreeing on what is most important is key to avoiding conflict. It will also bring you together as you work towards mutual goals.
- **Agree on what you share**—Some couples choose to pool all their money; others decide on joint and individual accounts, so each has a bit of independence. One caveat – share financial decisions so you are both vested in the outcomes.
- **Create a schedule**—With a budget established, a monthly check-in for day-to-day expenses and a quarterly one for major goals will help keep you on track and avoid money misunderstandings.

As with most things in marriage, managing money is all about compromise. The key is to communicate about your finances with care, understanding, honesty and respect.♦

Live for today or save for tomorrow? A twenty-something's dilemma

By Julie Strohlein, CPA

Early in your life, time is on your side. Saving even a small amount regularly over many years can produce a nest egg much larger than someone who starts saving later in life due to the time value of money. Good saving and spending habits can lead to financial stability just as easily as bad habits can create a deficit that may take decades to recover from.

Get saving—How to begin? It is much easier if you never get your hands on the money so set up payroll deductions directly into a savings account and/or a 401(k) plan. Set small specific goals, say to save so many dollars a month or a set percentage of earnings. Also track your spending and determine where you can gradually cut back and save instead. For example, give up one coffee per day, or make your own lunch two days a week.

Don't wait— A 20-year-old who saves $100 per month for 40 years, with an interest rate of 5% will save $48,000 but it will grow to $245,246 by age 60. The money tripled. Someone who waits until they are 40 and saves $200 per month for 20 years will save the same $48,000 but it will only be worth $76,328 at the end.

Conquer student loan debt—Talk with your employer. Many companies offer student loan debt assistance or counseling. Also select auto-pay on your loan to make payments regularly. Could you send $5 or $15 extra each month? It might reduce the time it takes to pay off your loans by months or years.

Use credit wisely—Before you take out a loan or charge up your VISA card ask yourself these two questions: (1) Can I afford the payments? (2) Can I wait until later? By paying cash for purchases, you can avoid interest charges and generally spend less in the long run.

Pay more than the minimum—Sometimes you may not be able to pay off your credit card in full, but always try to pay more than the minimum. A balance of $5,000 may take seven years or more to pay off if you only make minimum payments. And since it is unlikely that you would go those seven years without charging anything else, you may never pay off the card at that rate. Do you really need ALL those streaming services? Do you want to be paying for this month's subscription for years to come?♦

Why Millennials need a financial plan—and what to consider

By Angela Venti

Millennials may be the first generation to do worse than their parents financially. The Great Recession, sky-high college debt, the pandemic turmoil and record-high inflation have put a dent in the dreams of many of those born between 1981 and 1996. Still, this generation is beginning to gain its financial footing as they advance in their careers.

Known for creativity and adaptability, Millennials can get their financial houses in order while they are still relatively young by rethinking their approach to money. Here are five key components they should consider now.

- **Emergency funds**—Given everything they have experienced Millennials know uncertainty all too well. Three to six months' worth of expenses in a readily accessible account will go a long way to keeping life on track in the event of an unexpected job loss, or major medical or car expense.
- **Budgeting and debt reduction**—It's impossible to set financial goals when money is slipping through your fingers. Tracking expenses, developing a budget, and retiring debt are essential steps to reaching future goals like home ownership.

- **Retirement fund**—The earlier one starts saving for retirement, the better. An automatic savings plan allows you to build a solid nest egg—slowly but deliberately. The younger you are, the more you should consider having growth investments in your retirement fund.
- **Insurance**—While health insurance is a must, don't overlook options like supplemental insurance to cover gaps in your medical plan.
- **Medical directive**—In the unlikely event of a critical accident or chronic illness, don't you want your wishes for end-of-life care followed? That's the purpose of a medical directive. Also consider designating a person to make medical decisions on your behalf just in case you are unable to.♦

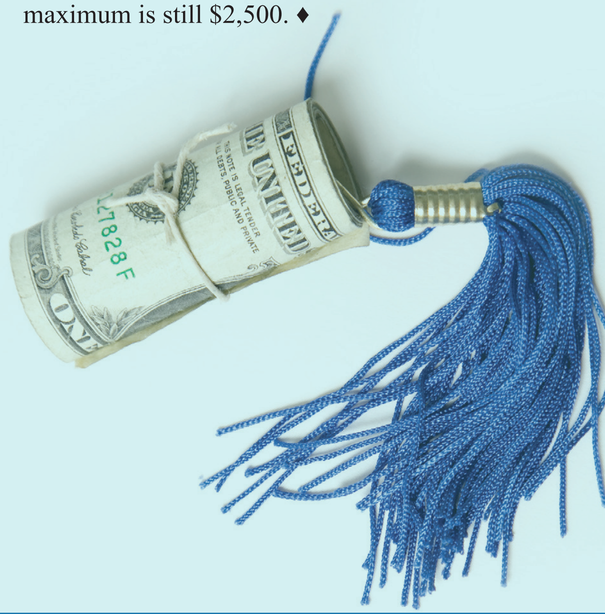
Smart tactics for conquering college costs

By Kim Sheehan, CPA/PFS

As a parent, I have seen the benefit of saving early in a 529 plan to manage college costs and limit student loans. Over time, the 529 college saving account can provide tax-deferred earnings growth, and withdrawals are tax-free when used for qualified education expenses. Contributions to 529 plans can be made by relatives and friends and some states even provide income tax deductions for contributions.

Saving for college is a daunting task, but there are other ways to conquer the high cost of college in addition to 529 plans.

- **Education tax credits**—These can help provide tax savings for college costs that are not paid for with 529 funds. Here are two of the most popular (1) the American Opportunity Tax Credit which is worth up to $2,500 per eligible student for each of the first four years of college or vocational school. (2) The Lifetime Learning credit is worth up to $2,000 per tax return, per year. It is available for all years of postsecondary education and for courses to acquire or improve job skills.
- **Community college**—Many money-conscious students are choosing to live at home and spend their first two years at a community college. Doing so can save tens of thousands of dollars or more.
- **Tax deduction**—Don't forget to take a deduction for student loan interest. You can deduct $2,500 if you are an individual making up to $70,000 or less (adjusted gross income) and up to $145,000 for married taxpayers filing a joint return. Unfortunately, if both taxpayers have student loans, the maximum is still $2,500. ♦



Medicare and Social Security – a financial calendar

If you are nearing your 60s, one of the most important financial decisions of your lifetime is when to take Social Security benefits. It's complex depending on your income, your spouse's income, the number of years you worked, whether or not you plan to continue working, your health and family longevity.

Less involved is when and how to sign up for Medicare. We'll start there.

Medicare timing

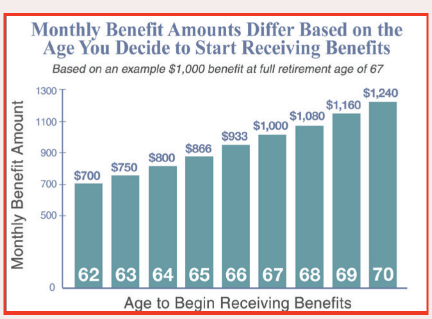
Most people start Medicare when they turn 65. In some cases, if you are covered by an employer health plan, it might make sense to delay signing up for some Medicare benefits—specifically part B.

Medicare has a 7-month enrollment period – three months before and after your 65th birthday, and your birthday month. There are two parts to Medicare: part A for hospitalization, which has no premiums, and part B for doctor and outpatient visits, which has monthly premiums that are automatically deducted from Social Security. Many also sign up for Part D to cover the cost of prescription drugs. There is also supplemental insurance to pay for dental, vision, hearing and fitness.

Social Security timing

There are three basic options for Social Security benefit timing – early, full and delayed retirement. You can start taking benefits as early as age 62. Full retirement timing depends on the year you were born. You can also delay retirement and get a higher benefit the longer you delay it, up until age 70.

In this example from the Social Security Administration for someone who is age 62 in 2022, taking early retirement would reduce monthly benefits by 30% from full retirement age. On the other hand, delaying retirement until age 70 would increase benefits 77% from early retirement. The difference in this example is $540 each month.



You might be surprised to learn that many people live much longer than the average retiree. In fact, the Social Security Administration reports that one out of every three 65-year-olds today will live until at least age 90, and one out of seven will live until at least age 95.

Complicating the decision is the difference in tax treatment of Social Security income vs. IRA withdrawals, your other sources of retirement income and coordination of spousal benefits. Three key questions to ask: How much do you need the money? Will your spouse depend on your Social Security benefits? How healthy are you?

By determining your priorities and other income opportunities, you may be able to better decide at what age benefits make the most sense. Talk to your financial advisor and visit *www.ssa.gov* for more information. ♦

A financial checklist for divorce

By Anne D'Amico, CPA/PFS

It's a fact. More than 37% of divorces happen to those 55 and older. I've seen it with clients and friends—once the children are grown, many couples realize they have little keeping them together beyond family ties. Divorce is painful and stressful, especially when it comes to finances. However, there are ways to prepare. Here is a checklist of things to consider.

When contemplating divorce

- ☐ If you don't already have a credit card in your own name, apply for one.
- ☐ Consider establishing a credit history in your own name by taking a small bank loan. If necessary, have a friend or relative cosign.

When divorce has been decided upon

- ☐ Get a lawyer. If you don't know any, ask friends or the state bar association for recommendations.
- ☐ Close out joint credit and checking accounts.
- ☐ Take taxes into account when dividing property. Assets equal in value may not be equal in their tax consequences.
- ☐ Be sure your divorce agreement addresses who gets to claim estimated taxes already paid and who pays any additional IRS assessments on joint returns filed in prior years.

After divorce

- ☐ Check all insurance policies as well as your IRA and other pension plans, and change coverage and beneficiaries as appropriate.
- ☐ Review your will for appropriate revisions. If you're receiving alimony under a decree prior to 2019, consider an IRA. Taxable alimony is considered compensation for IRA contribution purposes.
- ☐ Review your tax withholding and estimated tax payments for any necessary adjustments.

During a divorce, many factors are competing for attention. By knowing the financial issues you will need to deal with beforehand, you may be able to avoid making costly money mistakes. ♦

When a loved one dies

By Ren Cicalese, CPA, PFS, CGMA

The death of a loved one is a heart-wrenching event. In addition to experiencing grief, survivors must deal with the individual's funeral arrangements, personal items and property, and financial assets and liabilities. Sadly, this can tear families apart, especially when the loved one's wishes are not well articulated, or their financial affairs are not in order. Here's a quick guide to help you through this difficult time.

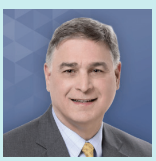
- First try to locate your relative's key legal and financial documents. If he or she had a will, notify the executor(s). In the case of a trust, contact the co-trustee or successor trustee. You should also notify anyone who holds power of attorney.

- If you have been named as executor or trustee, you will likely need tax, financial, and legal advice. Retain an attorney who is experienced in settling estates. You may need to oversee probate of the decedent's estate, file a final income tax return, or an estate tax return. You will need to gather all their financial records. Your attorney can help identify and make sense of the documents you need.

- Depending on the nature of the estate, it may be necessary to hire other experts, such as appraisers, investment advisors, and business valuation specialists.

- Notify insurance agents, employers, labor unions and the Social Security Administration. You may also need to inform The Department of Veteran Affairs if the person served in the military,the state motor vehicle department, financial institutions, and utility companies. Don't forget clubs, associations, and other organizations your loved one was involved in.♦

Ease the burden on your beneficiaries



By Ronald V. Donato, Jr., CFP®, MBA

One of the least discussed, but most important, items to have available to your survivors is a binder or file that contains all your financial information. This includes accounts, insurance policies, deeds, titles and more, including account names, user names and passwords, and phone numbers.

We offer a **Personal Financial Organizer** on the Alloy Silverstein Financial Services website at no cost to you. I can tell you from personal experience, it is an important final gift to your loved ones.

Why is this so important?

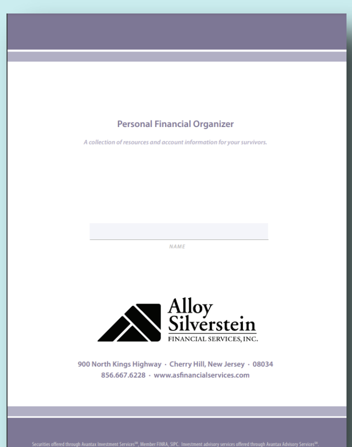
- You are in an emotional state. It helps to be able to open a file and know immediately whom to call for information regarding wills, trusts, insurance policies, and any assets or liabilities pertaining to the estate.

- If the deceased's spouse, children or other decedents need insurance proceeds or access to bank accounts in order to pay bills and/or taxes, this information is quickly accessible.

- Assets that might have been passed over will not be lost or go to the state.

You can include final wishes such as a song to play at the memorial service or anything else not usually covered in the will.

Of course, the **Personal Financial Organizer** is not a replacement for the various legal documents needed. However, it does help your surviving loved ones make clear-headed decisions during an emotional time and ensure that your wishes are clearly understood. ♦



Family Financial Empowerment

We hope you found value in this special Family Financial Empowerment newsletter. If the past two years have taught us anything, it's that having your financial affairs in order can help you feel prepared during uncertain times and when navigating a family member's sudden death.

The chronological layout of this issue is inspired by the contents of the ***Alloy Silverstein Personal Financial Organizer***. Broadly speaking, this Organizer is a life catalog of financial considerations:

- Personal Information, History, Key Documents, and Account Logins
- Property Ownership (real estate, vehicles, assets, etc.)
- Insurance Policies (health, life, disability, homeowners, etc.)
- Financial Accounts and Retirement Funds (checking, savings, mortgage(s), student loans, other loans, IRAs, investments, Social Security, etc.)
- Wills, Trusts, Power of Attorney, and Funeral/Burial Wishes

Our professionals have witnessed the financial decisions and implications of many families over the years, including our own. By sharing these fundamental basics, we encourage you to rethink your priorities, savings habits, and involvement in finances, no matter what stage of life you are in. Always know that an Alloy Silverstein CPA is here to guide you.

This Fall, Alloy Silverstein invites you, your loved ones, and friends to register for our Financial Empowerment webinar series. Our presenters will be discussing the topics covered in this issue and beyond. Look for the dates in your inbox and our social media pages.

For additional, 24/7 financial educational tips and tools, visit our complimentary Resource Centers on AlloySilverstein.com and ASFinancialServices.com.♦

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What the IRS is up to

Mileage rates increase

Following continuous gas price increases, the IRS has announced a mid-year mileage rate increase for the remainder of 2022. The rates for the use of a car (also vans, pickups or panel trucks) are:

- 62.5 cents per mile driven for business use
- 22 cents per mile for medical or moving purposes for qualified active-duty members of the Armed Forces
- The rate for miles driven for charitable work remains unchanged at 14 cents per mile

Employee Retention Credit

If you have not yet taken the ERC – are you sure you're not eligible? Businesses can amend past returns for up to 3 years, so a knowledgeable CPA can run the calculations for you. Thousands of dollars in tax credits could be on the table for your business.

NJ Tax relief for electric vehicles and property taxes

Charge Up New Jersey is a program that promotes clean vehicle adoption in the state by offering incentives of up to $4,000 for the purchase or lease of new, eligible zero-emission vehicles including battery electric and plug-in hybrid electric vehicles. The credit is provided by the dealership, not reflected later in a tax return. There is also a federal tax credit up to $7,500. Consult with your CPA for the most current information.

New Jersey also announced the new ANCHOR property tax relief program for both owners and renters. Homeowner benefits will be $1,500 for taxpayers with 2019 gross incomes up to $150,000 or $1,000 for those with 2019 gross income above $150,000, up to $250,000. Tenants with 2019 gross income up to $150,000 will qualify for a $450 benefit. ♦

Upcoming tax deadlines

September 15
-Third quarter individual estimated tax payments for 2022 are due.
-Filing deadline for extended 2021 S-corporation and partnership returns.

October 17
-Filing deadline for extended 2021 individual tax returns and calendar-year C-corporation returns.

During November
-Estimate your 2022 income tax liability and review your options for minimizing your taxes. Call to schedule a tax planning review.

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Stay up-to-date with the latest firm information and breaking tax and business news.
(We also appreciate reviews and recommendations!)

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. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us. Information used is obtained from sources considered to be reliable.