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James V Sadrianna PA - December 2021 Newsletter

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Retailers have warned consumers that product shortages and shipping delays will continue — and perhaps worsen later in the season.

Supply-Chain Chaos: Holiday Edition

The supply chain is the network by which products flow from the factories of suppliers to the inventories of retailers so they can ultimately be purchased by consumers. Corporate supply chains have been under pressure since the pandemic began, but the stress intensified in the latter months of 2021, with demand for goods surging and the holiday season fast approaching.[1]

The California ports that receive about 40% of U.S. imports are now operating 24/7, but workers still can't keep up with the rush of container ships arriving from overseas. In mid-November, there was a record backlog of vessels waiting offshore for more than two weeks to unload their cargo.[2] Other U.S. ports are also congested, and severe shortages of truck drivers and warehouse workers have further slowed the distribution of goods throughout the nation. These bottlenecks held up finished merchandise, as well as the inputs and raw materials needed to manufacture products domestically.

Compounding supply-chain issues have been increasing freight and labor costs, delaying shipments, and leaving consumers with higher prices and fewer options since the spring of 2021. As summer turned to fall, logjams remained and time was running out, raising fears that U.S. retailers would not have sufficient inventories of goods to meet consumer demand during the holidays.

The good news is that many businesses responded nimbly to challenging conditions, and some consumers have been proactive, too. Here's a glimpse into how these kinks in the supply chain might affect your holiday shopping in 2021.

Are Retailers Ready?

Many of the nation's largest retailers anticipated problems and went to great lengths to ensure that shelves would be well stocked with a robust variety of goods in time for the holiday shopping season. In many cases, this required paying much higher freight costs to charter their own smaller ships or cargo planes so they could bypass clogged ports and make up for production delays.[3]

Such costly measures are usually not an option for smaller retailers, which could put them at a disadvantage. In a November survey, 48% of small businesses reported that supply-chain disruptions are having a significant negative impact on their holiday sales.[4]

Expecting enthusiastic consumer demand, the National Retail Federation forecast record holiday spending of 8.5% to 10.5% above 2020 levels. But retailers have also warned consumers that sporadic product shortages and shipping delays would continue and perhaps worsen later in the season.[5]

Poised to Spend

U.S. retail sales rose 1.7% in October, a surprisingly strong showing and the third monthly increase in a row.[6] The potential for a more limited selection of some types of products has been widely reported, and it seems that consumers are paying attention. According to an annual NRF survey, a record share of consumers (49%) started their holiday shopping before November, and 36% did so to avoid missing the chance to buy key holiday items.[7]

U.S. households have extra money to spend this year after amassing about $2 trillion in excess savings during the pandemic. This was largely due to historic levels of economic relief provided by the federal government, along with fewer spending opportunities due to lockdowns.[8] The recent rise in consumer spending bodes well for retailers and economic growth, but heavy demand also weighs on the supply chain and pushes up prices.

A Season of Inflation

Unfortunately, escalating prices for holiday gifts and basic needs could prompt the loudest "bah humbug" of the 2021 holiday season. With businesses paying more for the raw materials, packaging, labor, transportation, and fuel needed to produce and distribute products, a portion of the additional costs are being passed on to consumers.

Measured by the Consumer Price Index (CPI), prices across the U.S. economy increased 6.2% during the 12 months ending in October 2021 — the highest inflation rate in nearly 31 years. Grocery prices (food at home) rose 5.4% year over year, while prices for the category that includes meats, poultry, fish, and eggs spiked 11.9%.[9]

Energy prices overall have climbed 30% since October 2020, and the natural gas that keeps many homes warm and cozy increased 28.1% year over year. Gasoline prices rose nearly 50% over the prior 12 months, slamming the budgets of households who plan to drive to family gatherings over the holidays.[10]

Because supply-and-demand shocks have driven these sharp price increases, some economists still believe they are temporary and that inflation will moderate in 2022 as supply constraints ease.[11] Of course, even short bursts of inflation can be especially painful for consumers with lower incomes and little or no savings, and no one knows for certain how long prices might stay elevated.

Shop Early or Be Flexible

On top of being more expensive, some in-demand products could be hard to find, and transportation bottlenecks aren't the only issue impacting supplies. A global shortage of semiconductors, or computer chips, is limiting the production of all kinds of electronic devices, including cars, home appliances, laptops, smartphones, TVs, and gaming consoles. The availability of some brands of sportswear, shoes, and accessories could be affected by a COVID outbreak that shut down factories in Vietnam. Other reported shortages include jewelry, some popular toys and books, frozen turkeys, cardboard boxes needed for shipping, and Christmas trees, both real and artificial.[12]

If you need certain items for entertaining or have family members with specific gifts on their wish lists, it could be risky to wait until the last minute to buy them. Otherwise, shopping locally, being open to alternatives, and giving cash or gift cards to be spent later might end up being your best options.

Projections are based on current conditions, are subject to change, and may not come to pass.

1) Consumer Reports, October 20, 2021

2) Bloomberg, November 13, 2021

3) *The Wall Street Journal,* October 10, 2021

4) National Federation of Independent Business, November 3, 2021

5, 7) National Retail Federation, November 16, 2021

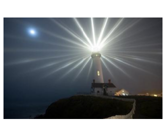
6) U.S. Census Bureau, 2021

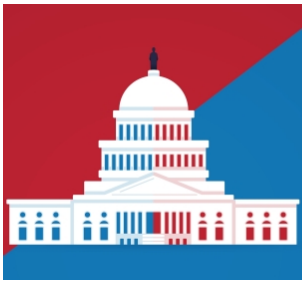
8) Bloomberg, November 16, 2021

9-10) U.S. Bureau of Labor Statistics, 2021

11) Moody's Analytics, November 18, 2021

12) CBS News, November 18, 2021





Given the stakes, it is unlikely that Congress will allow the government to default, but the road to raising the debt ceiling is unclear.

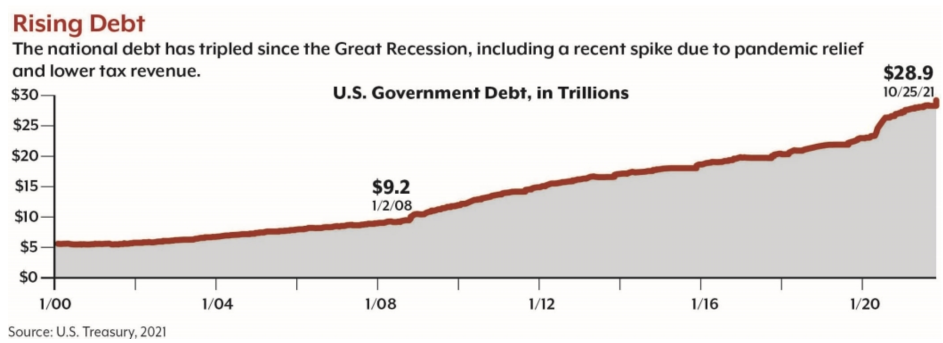
The Budget and the Debt Ceiling: Round 2

On September 30, 2021, Congress averted a potential federal government shutdown by passing a last-minute bill to fund government operations through December 3, 2021.[1] Two weeks later, another measure raised the debt ceiling by just enough to sustain federal borrowing until about the same date.[2] Although these bills provided temporary relief, they did not resolve the fundamental issues, and Congress will have to act again by December 3.

Spending vs. Borrowing

The budget and the debt ceiling are often considered together by Congress, but they are separate fiscal issues. The budget authorizes future spending, while the debt ceiling is a statutory limit on federal borrowing necessary to fund *already authorized* spending. Thus, increasing the debt ceiling does not increase government spending. But it does allow borrowing to meet increased spending authorized by Congress.

The underlying fact in this relationship between the budget and the debt ceiling is that the U.S. government runs on a deficit, and has done so every year since 2002.[3] The U.S. Treasury funds the deficit by borrowing through securities such as Treasury notes, bills, and bonds. When the debt ceiling is reached, the Treasury can no longer issue securities that would put the government above the limit.



Twelve Appropriations Bills

The federal fiscal year begins on October 1, and 12 appropriations bills for various government sectors should be passed by that date to fund activities ranging from defense and national park operations to food safety and salaries for federal employees.[4] These appropriations for discretionary spending account for about one-third of federal spending, with the other two-thirds, including Social Security and Medicare, prescribed by law.[5]

Though it would be better for federal agencies to know their operating budgets at the beginning of the fiscal year, the deadline to pass all 12 bills has not been met since FY 1997.[6] This year, none of the bills had passed as of late October.[7]

In order to buy time for further budget negotiations, Congress typically passes a *continuing resolution,* which extends federal spending to a specific date based on a fixed formula. The September 30 resolution extended spending to December 3 at FY 2021 levels.[8] Adding to the stakes of this year's budget negotiations, spending caps on discretionary spending that were enacted in 2011 expired on September 30, 2021, so FY 2022 budget levels may become the baseline for future spending.[9]

Raising the Ceiling

A debt limit was first established in 1917 to facilitate government borrowing during World War I. Since then, the limit has been raised or suspended almost 100 times, often with little or no conflict.[10] However, in recent years, it has become more contentious. In 2011, negotiations came so close to the edge that Standard & Poor's downgraded the U.S. government credit rating.[11]

A two-year suspension expired on August 1 of this year. At that time, the federal debt was about $28.4 trillion, with large recent increases due to the $3 trillion pandemic stimulus passed with bipartisan support in 2020, as well as the 2021 American Rescue Plan and continuing effects of the Tax Cuts and Jobs Act of

2017.[12-13] The Treasury funded operations after August 1 by employing certain "extraordinary measures" to maintain cash flow. Treasury Secretary Janet Yellen projected that these measures would be exhausted by October 18.[14]

The bill signed on October 14 increased the debt ceiling by $480 billion, the amount the Treasury estimated would be necessary to pay government obligations through December 3, again using extraordinary measures. Unlike the budget extension, which is a hard deadline, the debt ceiling date is an estimate, and the Treasury may have a little breathing room.[15–16]

Potential Consequences

If the budget appropriations bills — or another continuing resolution — are not passed by December 3, the government will be forced to shut down unfunded operations, with the exception of some essential services. This occurred in fiscal years 2013, 2018, and 2019, with shutdowns lasting 16 days, 3 days, and 35 days, respectively. A Senate report estimated that the three shutdowns cost taxpayers almost $4 billion and nearly 57,000 years of lost production time.[17]

Although the consequences of a government shutdown would be serious, the economy has bounced back from previous shutdowns. By contrast, a U.S. government default would be unprecedented and could result in unpaid bills, higher interest rates, and a loss of faith in U.S. Treasury securities that would reverberate throughout the global economy. The Federal Reserve has a contingency plan that might mitigate the effects of a short-term default, but Fed Chair Jerome Powell has emphasized that the Fed could not "shield the financial markets, and the economy, and the American people from the consequences of default."[18]

Given the stakes, it is unlikely that Congress will allow the government to default, but the road to raising the debt ceiling is unclear. The temporary measure was passed through a bipartisan agreement to suspend the Senate filibuster rule, which effectively requires 60 votes to move most legislation forward. However, this was a one-time exception and may not be available again. Another possibility may be to attach a provision to the education, health-care, and climate package slated to move through a complex *budget reconciliation* process that allows a bill to bypass the Senate filibuster. However, the reconciliation process is time-consuming, and it is not clear whether the debt ceiling would meet parliamentary requirements.[19]

The budget and the debt ceiling are serious issues, but Congress has always found a way to resolve them in the past. It's generally wise to maintain a long-term investment strategy based on your goals, time frame, and risk tolerance, rather than overreacting to political conflict and any resulting market volatility.

U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid. All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost.

1, 8) *The Washington Post,* September 30, 2021

2, 16, 19) *Barron's,* October 15, 2021

3) U.S. Office of Management and Budget, 2021

4, 7, 9) Committee for a Responsible Federal Budget, June 25, 2021; October 18, 2021

5, 11, 14, 18) *The Wall Street Journal,* September 28, 2021

6) Peter G. Peterson Foundation, October 1, 2021

10) NPR, September 28, 2021

12, 15) U.S. Treasury, 2021

13) Moody's Analytics, September 21, 2021

17) U.S. Senate, September 17, 2019

Year-End Charitable Giving

With the holiday season upon us and the end of the year approaching, we pause to give thanks for our blessings and the people in our lives. It is also a time when charitable giving often comes to mind. The tax benefits associated with charitable giving could potentially enhance your ability to give and should be considered as part of your year-end tax planning.

Tax deduction for charitable gifts

GivingTuesday, a day for charitable giving, is held annually on the Tuesday after Thanksgiving (in 2021, GivingTuesday is November 30).

If you itemize deductions on your federal income tax return, you can generally deduct your gifts to qualified charities. This may also help potentially increase your gift.

Example(s): *Assume you want to make a charitable gift of $1,000. One way to potentially enhance the gift is to increase it by the amount of any income taxes you save with the charitable deduction for the gift. At a 24% tax rate, you might be able to give $1,316 to charity [$1,000 ÷ (1 - 24%) = $1,316; $1,316 x 24% = $316 taxes saved]. On the other hand, at a 32% tax rate, you might be able to give $1,471 to charity [$1,000 ÷ (1 - 32%) = $1,471; $1,471 x 32% = $471 taxes saved].*

However, keep in mind that the amount of your deduction may be limited to certain percentages of your adjusted gross income (AGI). For example, your deduction for gifts of cash to public charities is generally limited to 60% of your AGI for the year, and other gifts to charity are typically limited to 30% or 20% of your AGI. Charitable deductions that exceed the AGI limits may generally be carried over and deducted over the next five years, subject to the income percentage limits in those years.

For 2021 charitable gifts, the normal rules have been enhanced: The limit is increased to 100% of AGI for direct cash gifts to public charities. And even if you don't itemize deductions, you can receive a $300 charitable deduction ($600 for joint returns) for direct cash gifts to public charities (in addition to the standard deduction).

Make sure to retain proper substantiation of your charitable contribution. In order to claim a charitable deduction for any contribution of cash, a check, or other monetary gift, you must maintain a record of such contributions through a bank record (such as a cancelled check, a bank or credit union statement, or a credit-card statement) or a written communication (such as a receipt or letter) from the charity showing the name of the charity, the date of the contribution, and the amount of the contribution. If you claim a charitable deduction for any contribution of $250 or more, you must substantiate the contribution with a contemporaneous written acknowledgment of the contribution from the charity. If you make any noncash contributions, there are additional requirements.

Year-end tax planning

When making charitable gifts at the end of a year, you should consider them as part of your year-end tax planning. Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

For example, if you expect to be in a higher tax bracket next year, it may make sense to wait and make the charitable contribution in January so that you can take the deduction next year when the deduction results in a greater tax benefit. Or you might shift the charitable contribution, along with other deductions, into a year when your itemized deductions would be greater than the standard deduction amount. And if the income percentage limits above are a concern in one year, you might consider ways to shift income into that year or shift deductions out of that year, so that a larger charitable deduction is available for that year. A tax professional can help you evaluate your individual tax situation.

A word of caution

Be sure to deal with recognized charities and be wary of charities with similar-sounding names. It is common for scam artists to impersonate charities using bogus websites, email, phone calls, social media, and in-person solicitations. Check out the charity on the IRS website, *irs.gov,* using the Tax Exempt Organization Search tool. And don't send cash; contribute by check or credit card.

Over the past decade, average tuition, fees, room, and board costs have increased 11% at public colleges and 14% at private colleges over and above general inflation.

New College Cost Data for 2021-2022 Academic Year

Every year, the College Board releases new college cost data and trends in its annual report. Although costs can vary significantly depending on region and college, the College Board publishes average cost figures, which are based on a survey of approximately 4,000 colleges across the country.

Over the past decade, average tuition, fee, room, and board costs have increased 11% at public colleges and 14% at private colleges *over and above* increases in the Consumer Price Index. Here are cost highlights for the 2021-2022 year.[1]

Public colleges: in-state students

- Tuition and fees increased 1.6% to $10,740
- Room and board increased 1.9% to $11,950
- *Total cost of attendance: $27,330

Public colleges: out-of-state students

- Tuition and fees increased 1.5% to $27,560
- Room and board increased 1.9% to $11,950 (same as in-state)
- *Total cost of attendance: $44,150

Private colleges

- Tuition and fees increased 2.1% to $38,070
- Room and board increased 2.3% to $13,620
- *Total cost of attendance: $55,800

* Total cost of attendance includes direct billed costs for tuition, fees, room, and board, plus an amount for indirect costs for books, transportation, and personal expenses.

Sticker price vs. net price

The College Board's college cost figures are based on published college sticker prices. But many families don't pay the full sticker price. A net price calculator, available on every college website, can help families see beyond a college's sticker price.

A net price calculator provides an estimate of how much grant aid a student might be eligible for at a particular school based on the student's financial information and academic record, allowing families to estimate what their out-of-pocket cost, or net price, will be. The results aren't a *guarantee* of grant aid, but they are meant to be close. A net price calculator can be a useful tool for students who are currently researching and/or applying to colleges.

FASFA for 2022-2023 year opened on October 1

The Free Application for Federal Student Aid (FAFSA) for the 2022-2023 school year opened on October 1, 2021. The 2022-2023 FAFSA relies on income information from your 2020 federal income tax return and current asset information. Your income is the biggest factor in determining financial aid eligibility.

Note: The FAFSA is getting an overhaul in an effort to simplify it. The changes will be phased in, with all changes expected to be completed for the 2024-2025 FAFSA (available starting October 1, 2023), a year later than originally planned. Three things to watch out for: (1) the expected family contribution, or EFC, will be replaced with a measurement known as the student aid index, or SAI; (2) parents with multiple children in college at the same time will no longer receive a discount in the form of a lower EFC; and (3) cash support and other types of income will no longer have to be reported on the FAFSA, including funds from a grandparent-owned 529 plan.[2]

Student loan repayment to resume in February

Repayment on federal student loans is set to resume beginning February 1, 2022. There have been four pauses to federal student loan repayment since the start of the pandemic. The first pause was instituted in March 2020 for six months (through September 2020) when Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The second and third pauses came via presidential executive order and extended the payment pause through January 2021 and through September 2021, respectively. The fourth and "final" extension is now scheduled through January 31, 2022, meaning payments will resume beginning February 1, 2022.[3]

1) College Board, *Trends in College Pricing and Student Aid 2021*

2) savingforcollege.com, *FAFSA Simplification Pushed Back 1 Year,* June 14, 2021

3) U.S. Department of Education, 2021

__The FTC has received over 20,000 COVID-19 related complaints since January 1, 2020.__

__Source: Federal Trade Commission, April 2020__

Watch Out for Coronavirus Scams

Fraudsters and scam artists are always looking for new ways to prey on consumers. Now they are using the same tactics to take advantage of consumers' heightened financial and health concerns over the coronavirus pandemic. Federal, state, and local law enforcement have begun issuing warnings on the surge of coronavirus scams and how consumers can protect themselves. Here are some of the more prevalent coronavirus scams that consumers need to watch out for.

Schemes related to economic impact payments

The IRS recently issued a warning about various schemes related to economic impact payments that are being sent to taxpayers under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.[1] The IRS warns taxpayers to be aware of scammers who:

- Use words such as "stimulus check" or "stimulus payment" instead of the official term, "economic impact payment"
- Ask you to "sign up" for your economic impact payment check
- Contact you by phone, email, text or social media for verification of personal and/or banking information to receive or speed up your economic impact payment

In most cases, the IRS will deposit the economic impact payment directly into an account that taxpayers previously provided on their tax returns. If taxpayers have previously filed their taxes but not provided direct-deposit information to the IRS, they will be able to provide their banking information online at irs.gov/coronavirus. If the IRS does not have a taxpayer's direct-deposit information, a check will be mailed to the taxpayer's address on file with the IRS. In addition, the IRS is reminding Social Security recipients who normally don't file taxes that no additional action or information is needed on their part to receive the $1,200 economic payment — it will be sent to them automatically.

Fraudulent treatments, vaccinations, and home test kits

The Federal Trade Commission is tracking scam artists who are attempting to sell fraudulent products that claim to treat, prevent, or diagnose COVID-19. Currently, the U.S. Food and Drug Administration (FDA) has not approved any products designed specifically to treat or prevent COVID-19.

The FDA had warned consumers in March to be wary of companies selling unauthorized coronavirus home testing kits. On April 21, 2020, the FDA authorized the first coronavirus test kit for home use. According to the FDA, the test kits will be available to consumers in most states, with a doctor's order, in the coming weeks. You can visit fda.gov for more information.

Phishing scams

Scammers have begun using phishing scams related to the coronavirus pandemic in order to obtain personal and financial information. Phishing scams usually involve unsolicited phone calls, emails, text messages, or fake websites that pose as legitimate organizations and try to convince you to provide personal or financial information. Once scam artists obtain this information, they use it to commit identity or financial theft. Be wary of anyone claiming to be from an official organization, such as the Centers for Disease Control and Prevention or the World Health Organization, or nongovernment websites with domain names that include the words "coronavirus" or "COVID-19," as they are likely to be malicious.

Charity fraud

Many charitable organizations are dedicated to helping those affected by COVID-19. Scammers often pose as legitimate charitable organizations in order to solicit donations from unsuspecting donors. Be wary of charities with names that are similar to more familiar or nationally known organizations. Before donating to a charity, make sure that it is legitimate and never donate cash, gift cards, or funds by wire transfer. The IRS website has a tool to assist you in checking out the status of a charitable organization at irs.gov/charities-and-nonprofits.

Protecting yourself from scams

Fortunately, there are some things you can do to protect yourself from scams, including those related to the coronavirus pandemic:

- Don't click on suspicious or unfamiliar links in emails, text messages, and instant messaging services.

- Don't answer a phone call if you don't recognize the phone number — instead, let it go to voicemail and check later to verify the caller.
- Never download email attachments unless you can verify that the sender is legitimate.
- Keep device and security software up-to-date, maintain strong passwords, and use multi-factor authentication.
- Never share personal or financial information via email, text message, or over the phone.
- If you see a scam related to the coronavirus, be sure to report it to the FTC at ftc.gov/complaint.

[1] Internal Revenue Service, IR-2020-64, April 2, 2020

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