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James Sadrianna PA Newsletter - November 2022

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2022 Year-End Tax Tips

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

1. 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. Doing so may enable you to postpone payment of tax on the income until next year.

2. Accelerate deductions

You might also 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.

3. 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.)

4. Bump up withholding to cover a tax shortfall

If it looks as though you will 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. Time may be limited for employees to request a Form W-4 change and for their employers to implement it in time for 2022. 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. This strategy can be used to make up for low or missing quarterly estimated tax payments.

5. 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 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 Roth qualified distributions are not taxable.

6. Take required minimum distributions

If you are age 72 or older, you generally must take required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (special rules apply if you're still working and participating in your employer's retirement plan). You have to make the withdrawals by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that wasn't distributed on time.

7. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. 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 over and 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.

Legislation that could benefit people with IRAs and workplace retirement plans is currently moving through the House and the Senate.

Retirement Legislation Awaits Further Action

Legislation that could benefit people with individual retirement accounts (IRAs) and workplace retirement plans is currently moving through Congress. The Securing a Strong Retirement Act of 2022 has passed almost unanimously in the House. A similar bill (with some differences), the Enhancing American Retirement Now Act, has been drafted in the Senate but will have to wait until Congress is back in session in November for further consideration. If the Senate passes its bill, the House and the Senate would need to reconcile the two bills, and then each would vote on the reconciled bill.

Some significant provisions in the proposed legislation that may aid in your retirement planning are summarized below.

Contributions	
House	**Senate**
The $1,000 IRA catch-up contribution limit for individuals aged 50 and older would be indexed for inflation, starting in 2024.	The $1,000 IRA catch-up contribution limit for individuals aged 50 and older would be indexed for inflation, starting in 2023.
For workplace retirement plans such as a 401(k), the catch-up contribution limit would be increased to $10,000 (indexed for inflation) for eligible participants aged 62 to 64, starting in 2024.	For workplace retirement plans such as a 401(k), the catch-up contribution limit would be increased to $10,000 (indexed for inflation) for eligible participants aged 60 to 63, starting in 2025.
For SIMPLE plans, the catch-up contribution limit would be increased to $5,000 (indexed for inflation) for eligible participants aged 62 to 64, starting in 2024.	For SIMPLE plans, the catch-up contribution limit would be increased to $5,000 (indexed for inflation) for eligible participants aged 60 to 63, starting in 2025.
An employer would be able to make matching contributions to a defined contribution plan such as a 401(k) on behalf of an employee who is making qualified student loan payments, starting in 2023.	An employer would be able to make matching contributions to a defined contribution plan such as a 401(k) on behalf of an employee who is making qualified student loan payments, starting in 2024.
Distributions	
House	**Senate**
The current starting age of 72 for required minimum distributions (RMDs) from retirement accounts would be increased to age 73 starting in 2023, age 74 starting in 2030, and age 75 starting in 2033.	The current starting age of 72 for required minimum distributions (RMDs) from retirement accounts would be increased to age 75 for calendar years after 2031.
The penalty for failing to make an RMD would be reduced from 50% to 25%, starting in 2023. In addition, the penalty would be reduced to 10% if the taxpayer corrects an RMD shortfall and submits a corrected tax return before the earlier of (a) when the IRS demands payment or (b) the end of the second taxable year after the taxable year in which the penalty is imposed.	The penalty for failing to make an RMD would be reduced from 50% to 25%, starting in 2023. In addition, the penalty would be reduced to 10% if the taxpayer corrects an RMD shortfall and submits a corrected tax return before the earlier of (a) when the IRS demands payment or (b) the end of the second taxable year after the taxable year in which the penalty is imposed.
Qualified charitable distributions (QCDs) for individuals aged 70½ and older would be expanded to allow a one-time election to be made for a QCD of up to $50,000 (to be adjusted for inflation) to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity.	Qualified charitable distributions (QCDs) for individuals aged 70½ and older would be expanded to allow a one-time election to be made for a QCD of up to $50,000 (to be adjusted for inflation) to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity.
An exception to the penalty for early distributions from a retirement plan would be available for up to $10,000 of distributions to a domestic abuse victim after the date of enactment.	An exception to the penalty for early distributions from a retirement plan would be available for up to $10,000 of distributions to a domestic abuse victim after the date of enactment.

Other	
House	**Senate**
SIMPLE and SEP Roth IRAs would be allowed starting in 2023.	SIMPLE and SEP Roth IRAs would be allowed starting in 2024.
If a retirement plan permits it, an employee would be able to elect to have employer matching contributions treated as Roth contributions, starting with contributions made after the date of enactment.	If a retirement plan permits it, an employee would be able to elect to have employer matching contributions treated as Roth contributions, starting with contributions made in 2023.

Medicare Open Enrollment Is Here: How Are Costs Changing for 2023?

Medicare's Open Enrollment Period — which runs from October 15 through December 7 — is your annual opportunity to switch your current Medicare health and prescription drug plans to ones that better suit your needs. Just in time for Open Enrollment, 2023 Medicare premiums, deductibles, and other costs have been announced, and surprisingly, some of these costs are lower than they were last year.

You can view more information on Medicare benefits in the Medicare & You 2023 Handbook and access a Medicare plan finder tool that allows you to compare health and drug coverage options at [medicare.gov.](medicare.gov)

You can also call your State Health Insurance Assistance Program (SHIP) for free, personalized counseling. Visit shiptacenter.org or call the toll-free Medicare number 800-MEDICARE (800-633-4227) to find the phone number for your state.

What to consider

Start by reviewing any materials your plan has sent you. Look at the coverage offered, the costs, and the network of providers, which may be different than last year. Maybe your health has changed, or you anticipate needing medical care, or new or pricier prescription drugs. If your current plan doesn't meet your health-care needs or fit your budget, you can make changes. But if you're satisfied with what you currently have, you don't need to do anything. The coverage you have will continue.

During Open Enrollment, you can:

- Switch from Original Medicare to a Medicare Advantage Plan
- Switch from a Medicare Advantage Plan to Original Medicare
- Change from one Medicare Advantage Plan to a different Medicare Advantage Plan
- Change from a Medicare Advantage Plan that offers prescription drug coverage to a Medicare Advantage Plan that doesn't offer prescription drug coverage
- Switch from a Medicare Advantage Plan that doesn't offer prescription drug coverage to a Medicare Advantage Plan that does offer prescription drug coverage
- Join a Medicare prescription drug plan (Part D)
- Switch from one Part D plan to another Part D plan
- Drop your Part D coverage altogether

Any changes made during Open Enrollment are effective as of January 1, 2023.

Medicare Part B (Medical Insurance) costs for 2023

Most people with Medicare who receive Social Security benefits will pay the standard monthly Part B premium of $164.90 in 2023. This premium is $5.20 lower than it was in 2022 due to lower-than-projected spending for a new drug, Aduhelm, and other Part B items and services.[1]

People with higher incomes may pay more than the standard premium. If your modified adjusted gross income (MAGI) as reported on your federal income tax return from two years ago (2021) is above a certain amount, you'll pay the standard premium amount and an Income-Related Monthly Adjustment Amount (IRMAA), which is an extra charge added to your premium, as shown in the following table.

Medicare Part C (Medicare Advantage) costs vary by plan, but the projected average premium for 2023 plans is $18 (down from $19.52 in 2022). You will also have to pay the Medicare Part B premium.

You filed an individual income tax return with MAGI that was:	You filed a joint income tax return with MAGI that was:	You filed an income tax return as married filing separately with MAGI that was:	Total monthly premium in 2023 is:	*Total monthly premium in 2023 immunosuppressive drug coverage only is:
$97,000 or less	$194,000 or less	$97,000 or less	$164.90	$97.10
Above $97,000 up to $123,000	Above $194,000 up to $246,000	N/A	$230.80	$161.80
Above $123,000 up to $153,000	Above $246,000 up to $306,000	N/A	$329.70	$258.90
Above $153,000 up to $183,000	Above $306,000 up to $366,000	N/A	$428.60	$356.00
Above $183,000 and less than $500,000	Above $366,000 and less than $750,000	Above $97,000 and less than $403,000	$527.50	$453.10
$500,000 and above	$750,000 and above	$403,000 and above	$560.50	$485.50

People with higher incomes may also pay a higher premium for a Medicare Part D prescription drug plan, because an IRMAA will be added to the Part D basic premium based on the same income limits in the table above. Part D premiums vary, but the average basic monthly premium for 2023 is projected to be $31.50 (down from $32.08 in 2022).

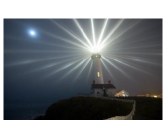
People with Medicare Part B must also satisfy an annual deductible before Original Medicare starts to pay. For 2023, this deductible is $226 (down from $233 in 2022).

*This premium applies to a new benefit that extends coverage for immunosuppressive drugs for people who qualify for Medicare coverage due to end-stage renal disease. Prior to 2023, Medicare coverage, including immunosuppressive drug coverage, ended 36 months after a successful kidney transplant. Beginning January 1, 2023, Medicare will offer a new benefit that will help continue to pay for immunosuppressive drugs beyond 36 months for people who don't have other health coverage. It does not cover other items or services. Rates shown apply to people who file individual or joint tax returns. Premiums for beneficiaries filing as married filing separately are different.

Medicare Part A (Hospital Insurance) costs for 2023

- Part A deductible for inpatient hospitalization: $1,600 per benefit period (up from $1,556 in 2022)
- Part A premium for those who need to buy coverage: up to $506 per month (up from $499 in 2022) — most people don't pay a premium for Medicare Part A
- Part A coinsurance: $400 per day for days 61 through 90, and $800 per "lifetime reserve day" after day 90, up to a 60-day lifetime maximum (up from $389 and $778 in 2022)
- Part A skilled nursing facility coinsurance: $200 for days 21 through 100 for each benefit period (up from $194.50 in 2022)

1) The Centers for Medicare & Medicaid Services, 2022



Demand for the dollar tends to increase during difficult times as investors seek stability and security. The Federal Reserve's aggressive policy to combat inflation by raising interest rates has driven demand even higher.

What Does a Strong Dollar Mean for the U.S. Economy?

In late September 2022, the U.S. dollar hit a 20-year high in an index that measures its value against six major currencies: the euro, the Japanese yen, the British pound, the Canadian dollar, the Swedish krona, and the Swiss franc. At the same time, a broader inflation-adjusted index that captures a basket of 26 foreign currencies reached its highest level since 1985. Both indexes eased slightly but remained near their highs in October.[1–2]

Intuitively, it might seem that a strong dollar is good for the U.S. economy, but the effects are mixed in the context of other domestic and global pressures.

World Standard

The U.S. dollar is the world's reserve currency. About 40% of global financial transactions are executed in dollars, with or without U.S. involvement.[3] As such, foreign governments, global financial institutions, and multinational companies all hold dollars, providing a level of demand regardless of other forces.

Demand for the dollar tends to increase during difficult times as investors seek stability and security. Despite high inflation and recession predictions, the U.S. economy remains the strongest in the world.[4] Other countries are battling inflation, too, and the strong dollar is making their battles more difficult. The United States recovered more quickly from the pandemic recession, putting it in a better position to weather inflationary pressures.

The Federal Reserve's aggressive policy to combat inflation by raising interest rates has driven demand for the dollar even higher because of the appealing rates on dollar-denominated assets such as U.S. Treasury securities. Some other central banks have begun to raise rates as well — to fight inflation and offer better yields on their own securities. But the strength of the U.S. economy allows the Fed to push rates higher and faster, which is likely to maintain the dollar's advantage for some time.

Surging Greenback

Over the past year, the value of the dollar has risen rapidly against a broad basket of foreign currencies.

Source: Federal Reserve, 2022

Exports and Imports

The strong dollar makes imported goods cheaper and exported goods more expensive. Cheaper imports are generally good for consumers and for companies that use foreign-manufactured supplies, but they can undercut domestic sales by U.S. producers.

At the same time, the strong dollar effectively raises prices for goods that U.S. companies sell in foreign markets, making it more difficult to compete and reducing the value of foreign purchases. For example, a U.S. company that sells 10,000 euros worth of goods to a foreign buyer would receive less revenue when a euro buys fewer dollars. Some experts are concerned that the strong dollar will dampen the post-pandemic rebound in U.S. manufacturing.[5] More broadly, the ballooning trade deficit cuts into U.S. gross domestic product (GDP), which includes imports as a negative input and exports as a positive input.

Overseas Exposure

Generally, large multinational companies have the most exposure to risk from currency imbalances, and the stock market has shown signs of a shift from large companies — which have dominated the market since before the pandemic — to smaller companies that may be more nimble and less dependent on overseas sales. The S&P SmallCap 600 index has outperformed the S&P 500 index through late October; if the trend continues through the end of the year, it would be the first time since 2016 that small caps have eclipsed large caps.[6] The S&P MidCap 400 index has done even better. In the current bear market, however, better performance means lower losses; all three indexes have had double-digit losses through October 2022.[7]

Global Pain

A weak currency can be a boon for a country by making its exports more competitive. But with the world economy weakening, other countries are not reaping those benefits, while paying more on debt and imported essentials such as food and fuel that are traded in dollars. The Fed is focused on domestic concerns, but it is effectively exporting inflation while trying to control it at home, and global economic pain could ultimately spread to the U.S. economy.[8]

Slowing the Dollar

In the near term, the Fed's aggressive rate hikes may reduce domestic demand for foreign goods, reducing the trade deficit and weakening the dollar. The advance Q3 2022 GDP estimate showed the trade gap closing, but it's unclear if the trend will last.[9]

In the longer term, as inflation eases in the United States, the Fed will likely take its foot off the gas pedal and ultimately bring rates down. This would allow other central banks to catch up if they choose to do so and would make foreign currencies and securities more appealing. Lower oil prices (denominated in dollars) and/or any reduction in world tensions — such as a slowdown in the Russia-Ukraine war — might also help reduce demand for dollars.

The dynamics of these factors are complex, and it may take time for any of them to unfold. In the meantime, the strong dollar is a sign of U.S. economic strength, and it would not be wise to place too much emphasis on it for long-term investment decisions. However, this could be a great time for an overseas vacation.

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 volatility and loss of principal. Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, and economic and political risk unique to the specific country. This may result in greater share price volatility. Shares, when sold, may be worth more or less than their original cost. The value of a foreign investment, measured in U.S. dollars, could decrease because of unfavorable changes in currency exchange rates.

The S&P 500 index is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

1) MarketWatch, October 19, 2022 (U.S. Dollar index)

2) Federal Reserve, 2022 (Real Broad Dollar index)

3, 8) *The New York Times,* September 26, 2022

4, 6) *The Wall Street Journal,* October 17, 2022

5) *The Wall Street Journal,* October 9, 2022

7) S&P Dow Jones Indices, 2022

9) U.S. Bureau of Economic Analysis, 2022

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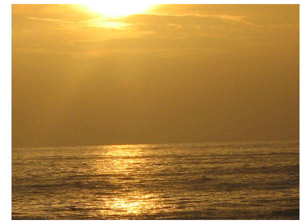

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