A Midyear Check-In with Your Financial Advisor

As we near the halfway mark of the year, it’s an ideal time to conduct a midyear financial planning review so you can assess your progress, make necessary adjustments, and ensure that you’re on track to achieve your financial goals. This checklist of topics to discuss with your advisor can inspire conversations that help confirm you’re headed in the right direction or adjustments that will get you back on target.

Goals. Begin by revisiting the financial plans you set at the beginning of the year. Have you made progress toward them? Are modifications necessary? This step will help realign your financial planning with your current circumstances. Consider any life events or changes that may require you to make adjustments. Update your personal financial records and ensure that they are organized and easily accessible for future reference.

Budget review. Have there been significant changes or unexpected expenses that would cause you to alter the budget you set at the start of the year? Identify areas where expenses can be reduced or eliminated. By analyzing your spending habits, you can identify potential savings and redirect those funds toward your financial goals. Determine if your budget needs to be revised to accommodate a difference in income, expenses, or financial priorities. If you didn’t establish a budget in January, now is a good time to set one up. You might want to explore the many digital budgeting apps available to track your accounts and expenses.

Income analysis. Assess any changes in income streams or potential future changes that may affect your financial situation. You might also want to explore opportunities to increase your income through side hustles or alternative sources of income. Midyear is a good time to check your tax withholdings, too, especially if you’ve changed jobs or gotten a salary increase.

Retirement planning. Check your progress toward your retirement savings goals. Review your 401(k), 403(b), IRA, or pension plans, and consider adjusting your contributions or investment strategies to ensure that you are on track for a comfortable retirement.

Debt management. Have you made progress in reducing debts, such as student loans and credit card debt, so far this year? Consider strategies for accelerating debt repayment to see whether it’s possible. This is also a good time to review your credit report and fix any issues or check for fraud. You’re entitled to a free copy of your credit report from each of the three national credit bureaus (Equifax, Experian, and TransUnion) once per year. If you’re paying off multiple debts, it’s wise to focus on the ones with the highest interest rates first to help you save more over the long term.

Investment performance. Review the performance of your investment portfolios and determine whether they still align with your goals. If necessary, think about rebalancing your portfolio or adjusting your strategies to optimize returns and manage risks effectively.

Risk management. Is your insurance coverage (e.g., life, health, and property insurance) adequate? Review beneficiary designations and update them if necessary. Think about any new risks or changes in circumstances that may require additional coverage to protect your financial well-being, such as marriage, having a baby, starting a business, or buying a house.

Estate planning. Although you probably won’t need to update estate planning documents such as wills and trusts, it’s a good idea to review them and ensure that they still reflect your wishes. Take into account changes in family or financial circumstances, such as marriage, divorce, or the birth of a child, which may require adjustments to ensure that your desires are met and your loved ones are protected.

Emergency fund. If unexpected expenses arise and you’re unprepared, it could put your financial status at risk. You should have three to six months of expenses in an emergency fund. It makes sense to put any excess cash into this fund to be sure that you’re covered in case you suddenly face unexpected costs.

A midyear financial planning review is an important step in maintaining control over your financial well-being and staying on track to achieve your goals. This list can help you evaluate your financial situation, make informed decisions, and adjust your plans accordingly. Please contact our office to discuss any item on this list or to set up a midyear meeting so we can help you set the stage for a successful remainder of the year.

Big Picture of Retirement Planning: Planning for the Spending Years

By Sarah Ruef-Lindquist

For Pen Bay Pilot Wave

Sarah Ruef-Lindquist, JD, CTFA

Many of us spend between 35 and 45 years working, earning and saving for retirement. People retire and shift into a spending mode but they often want to be sure they will have what they need, and won't outlive their money. Every day people thinking about their retirement ask me "How much do I need to have set aside to retire?"

Well, that depends. As financial advisors, we look at known data and estimate some other amounts as best we can.

First, we look at the sources of projected "guaranteed" income like pensions or social security, and consider especially the timing of beginning one's draw on social security. Beyond your Full Retirement Age ("FRA" which depends upon the year you were born) you can add 8% to the value of your benefit by waiting a year, up until age 70, which is the current mandatory age to begin withdrawing from social security.

Once we have a good estimate of "guaranteed" sources of income, we look at savings: We look at "qualified" accounts, like 401(k)'s, 403(b)'s and IRA's. We look at ROTH accounts, that can be withdrawn tax-free. We look at non-qualified savings and investment accounts. We can use a ball park figure of 4% or maybe 5% (depending on how much someone wants to leave in their legacy at death) and calculate that percentage of both qualified and non-qualified savings that one could spend in a given year, and add that to the “guaranteed” amount we already estimated.

Then we look at expenses: usually the big unknown is health care. We examine lifestyle, whether there will be lower expenses upon leaving the workforce, or downsizing a home or moving, and what the resulting cost of living will be. Also, any plans to remain even part-time in the workforce. And we estimate whether there is excess income, or a gap to cover planned costs of living. This can help us determine if our current savings plan is “on track” or perhaps needs to be increased. Inflation is also a factor to be considered, now more than it has in recent years.

It makes sense to begin this kind of planning 10 years and certainly at least 5 years before any planned retirement date. It also makes sense before making any significant elections, like social security withdrawals, that may be permanent. Get in touch with your Financial Advisor, and begin this very important conversation if you are planning your retirement.

Women and Retirement: More on SECURE 2.0

Sarah Ruef-Lindquist, JD, CTFA

By Sarah Ruef-Lindquist
For Pen Bay Pilot

A recent article in Financial Advisor on-line magazine provided some interesting insights into how SECURE 2.0, the most recent sweeping legislation affecting retirement savings, has potential to support women's retirements.[1]

Leslie Geller, senior vice president and wealth strategist at Capital Group, explained how some of the provisions that could provide greater opportunities than previously available for women saving for retirement:

"SECURE 2.0, far more than the original SECURE, presents more options and opportunities for different people to save for retirement differently. And I think it's especially impactful for women because saving for retirement is far less of a one-size-fits-all approach for women and finances," she said.

According to the article, the following provisions should be of particular interest to women:

Required Minimum Distributions. In 2023, the age at which people must withdraw taxable funds from retirement accounts ('RMD's') rises from 72 to 73, and to 75 in 2033. That's a minor deferral for today's 72-year-old. But for women who are 62 this year or younger, it’s a much more significant bump. This allows these accounts to have time for potentially greater tax-free growth before draw-down begins.

Catch-up contributions for 401(k) and 403(b) plans, governmental plans and traditional IRAs. Catch-up contributions are especially helpful for women who take time out of the workforce for childrearing or eldercare, and who have longer life expectancies than men. While it is impossible to recover the lost time value of money, increasing retirement savings now to grow through retirement is the next best thing.

In 2023, employees contributing to an employer plan who are 50 years old and older can now make a catch-up contribution of $7,500 on top of the $22,500 maximum regular contribution. Those amount were $6,500 and $20,500.

The second adjustment is a new initiative for employees 60 to 63. Beginning in 2025, these workers will be able to contribute 150% of the catch amount up or $10,000, whichever is greater.

529 rollover to Roth. Saving for a child’s education is a priority for many women. Under the new provision, 529 funds not used for education can be rolled into a Roth IRA tax and penalty free, up to $35,000.

New benefits for part-time employees. Women are often part-time employees, ineligible for retirement plan participation. However, beginning in 2025 employers will have to make their 401(k) plans available to their long-term, part-time workers, who are those working at least 500 hours a year for at least two consecutive years.

Automatic enrollment. Beginning in 2025, employees will no longer have to actively opt into new employer 401(k) or 403(b) plans. The deferral amount will start at 3% in 2025 and increase

1% a year to 10% unless the employee opts out.

Save for retirement while paying off student loans. An employee repaying a student loan can still get an employer matching contribution on the repayment amount under a 401(k), 403(b) or 457 (b), even if they are not contributing to the plan. These contributions, beginning in 2024, can allow a worker to pay off student loans and simultaneously save for retirement.

There are also numerous new provisions that allow account holders to access account assets for emergencies, waiving penalties for early withdrawals in the case of terminal illness, domestic violence victims and penalty-free emergency withdrawals of up to $1,000 per year.

Given the unique circumstances of each individuals, consulting a qualified financial or tax advisor about how any of these provisions may affect you is strongly recommended.

Teaching Teens Financial Responsibility

We feel confident our kids will be taught reading, writing, and basic math in school. But how will they learn to budget, use a credit card, save for a car or a down payment on a home, and stay out of debt? Just as reading and writing are critical skills for a successful future, so is financial responsibility. Unlike with common academic subjects, however, it often falls on families to teach money-related lessons. Before a teenager leaves the nest, they should know these basic financial concepts to lay a foundation for success in adulthood.

Budgeting and Banking

Allowances are commonly offered to kids as a reward for doing chores. They also provide lessons in saving and budgeting. A monthly allowance—as opposed to a weekly one—gives more opportunities for planning ahead because the cash needs to last longer. Creating a budget with your teen for how to spend an allowance can lead to a discussion about prioritizing needs over wants and figuring out how to spend less on some things so you have more to spend on others. You might suddenly find your kid packing a snack at home, for example, instead of visiting the vending machine at school.

Teens often have additional opportunities to learn money management when they earn cash from part-time jobs or summer work. That additional income means they have more to spend and budget—and they're attaining more financial independence.

One common approach is to instruct kids to divide their income into three categories: save, spend, and give. Although saving in an envelope or piggy bank might work for young children, opening a savings account for your teen helps them learn about banking in general, accruing interest, and planning for long-term goals. Many banks offer teen checking accounts with a debit card as well as allow parental access and controls.

It might be possible to set up direct deposit for paychecks and have your teenager check the balance from their mobile phone. Looking at the paycheck together can also spark lessons in taxes, such as types of deductions, what the government uses the money for, and who must file a return. This way, you'll save them from a big surprise when their take-home pay is less than expected. You can also look into youth brokerage accounts to get your teen to learn about investing.

A Course in Good Credit
Once your teen has money in the bank, they'll need a way to access it. Options include debit cards, prepaid cards, and adding an authorized user to your credit card account. Each of these methods offer lessons in how to spend within your means.

A debit or prepaid card can help your teen start making online and in-person purchases without incurring debt. Practicing using a debit card can get them in the mindset of spending only what they have, which will be helpful when they are eligible for an actual credit card. Although most lenders won't issue a credit card to anyone younger than 18, adding your teen as an authorized user on your credit card is another option for a starting experience with credit. To maintain the same spend-within-your-means line of thinking that a debit card offers, consider requiring receipts for your teen's purchases and collecting cash from them for each expense.

Look at the credit card bill together each month, explaining annual fees, interest charges, late payment fees, and—most important—the consequences of amassing credit card debt. Paying the bill together can also help your teen form a habit of checking all charges, getting mistakes or fraudulent charges corrected, and paying attention to due dates.

Once you've taught your teen how to responsibly pay the bill, you can explain the basics of credit scores, such as how they're calculated and how they can affect a person's ability to borrow and make large purchases as an adult.

Contributing to a Cause
"Spend, save, give" might sound easy, but what would motivate your teen to donate any of their earnings—and to whom should they give? One way to introduce the concept of donating to charity is to share information about the contributions you

make, why you chose those organizations, and how the recipients benefit from your help. Perhaps your teen is an animal lover, has a friend battling a disease, has a relative who is a veteran, or is interested in another cause that would benefit from a donation.

After selecting a charity, discuss the importance of researching organizations to confirm their legitimacy and to verify that any contributions directly benefit those in need. Lastly, educate your teen about itemized tax deductions and how charitable donations to qualified organizations can reduce your tax bill.

Staying Safe from Scams
Just as you've taught your child general online safety, there are new lessons to learn once debit cards, banking apps, and online donations enter the mix. It's important that your teen knows never to share passwords, online banking information, or account numbers. Help them regularly check credit card bills or debit accounts for fraudulent charges and guide them through reporting purchases they don't recognize.

If you have questions about how to communicate these—or any other financial concepts—to your teen, please reach out to our office. We aim to help your whole family achieve financial success.

Inheriting Debt from a Family

Member

Thinking about a loved one’s outstanding debt is the last thing on anyone’s mind when a family member passes away. Unfortunately, many people find themselves dealing with creditors and figuring out how to pay their loved one’s debts as they grieve. To avoid this situation, it makes good financial sense to consider these matters ahead of time.

Who’s Responsible for Outstanding Debt?
Generally, the deceased person’s estate assets are used to satisfy creditor claims before being distributed to beneficiaries. If estate assets are insufficient to pay all outstanding debt, the estate is considered insolvent, and state law prioritizes the payment of the deceased person’s bills with the available assets.

In some cases, however, outstanding debts may not fall to the estate:

• Cosigned or joined debts. If you’ve cosigned on a loan or credit card with the deceased person or owned the account jointly, you are financially responsible for that debt.
• Guaranteed debts. A similar situation to cosigning, if you are the guarantor of a loan for someone who has passed away, you will owe the lender payment of any remaining debt.
• Community property. If your spouse passes away, you may find yourself responsible for debts for which you weren’t a cosigner or coapplicant. Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin are considered community property or quasi-community property states, meaning all property and debt acquired during a marriage is considered jointly owned. If you live in one of these states, you could be held responsible for debts your spouse incurred.

How Are Different Types of Debt Handled?

• Credit card debt. Again, family members are not responsible unless they cosigned on the credit card. Although debt collectors may be aggressive, they can only make a claim against the estate. If you did cosign, you will be held responsible for the debt, even if you didn't directly incur it. However, being an authorized user on the credit card account will not make you responsible for the credit card debt.

• Medical debt. If your parent qualified for Medicaid, the state may try to recover the payments made for their care. The state cannot ask you to pay, but it may be able to put a lien on your parent's home to recover the funds or seek recovery from your parent's estate. If a family member dies with other unpaid medical bills (unrelated to Medicaid), those bills become an estate debt. Keep in mind that many states have filial responsibility statutes that, under certain circumstances, hold adult children responsible for a deceased parent's medical debt. A spouse might also be responsible for a deceased spouse's medical debts under a state's family expense act. Be sure to understand how state law may apply in your situation.

• Mortgage debt. If you inherit a residence with a mortgage, you generally aren't required to pay it off immediately. If you fail to make the mortgage payments, however, or cannot sell the house for a price that will pay off the mortgage, the lender will likely foreclose (or possibly agree to a short sale). If you don't wish to own the real estate, you may disclaim it, at which point it would transfer to the next estate beneficiary.

• Student loan debt. Federal programs, such as Perkins and Stafford loans, usually offer cosigners forgiveness if the borrower passes away. However, private loans may be another story. Although some lenders have started to discharge the debt if a borrower dies or becomes disabled, many demand the money owed from cosigners.

• Taxes. The estate is responsible for paying any property, income, or estate taxes. Tax authorities are usually given top priority as creditors.

Don’t Be Bullied

Family members of deceased debtors—and all consumers—are protected by the federal Fair Debt Collection Practices Act (FDCPA), which prohibits debt collectors from using abusive, unfair, or deceptive practices in attempting to satisfy a debt. Under the FDCPA, collectors can contact the deceased person’s spouse, guardian, executor, or administrator to get their contact information, but they are not allowed to discuss the details of the debt. You have the right to control your interactions with these collectors. For more information, visit the Federal Trade Commission’s website.

Know Where You Stand

Inherited debt can be a complex issue. If you find yourself in this situation, seek advice from your financial advisor and an attorney who can guide you through the probate process and work with debt collectors. Although dealing with a loved one’s death is never easy, getting your questions answered and protecting your inherited assets may make the situation a little less stressful.

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6 Money Conversations to Have in a Long-Term Relationship

All couples hope for a “happily ever after,” but it’s no secret that money issues can be primary reasons partners split up or divorce. To avoid future battles over finances, it’s smart to put all your cards—credit and otherwise—on the table. Of course, a conversation about salaries and student debt is probably premature on a first date. But once you decide to enter a long-term relationship, be sure that you and your partner are on the same page about handling current and future expenses. Even if you’re married, it’s never too late to talk about where you stand and where you’re headed financially.

Set yourself up for that happily ever after by having these important financial conversations.

1) What Do Each of You Bring to the Table?
It’s a good start to be honest about liabilities, such as student loans, credit card debt, medical expenses, and other financial obligations, as well as assets, such as salary and investments. Knowing these figures will help you plan for the future and understand how you’ll need to budget. It may also give you a bit of a reality check. Once you combine finances, your goals will be mutual—perhaps owning a house, paying off debt, starting a family, saving for retirement—and you’ll need to work together toward them.

Lying to your partner about money, or hiding debt or separate accounts, is often referred to as financial infidelity. This term alone gives you a sense of the trouble it can cause in a relationship and why it’s ideal to be honest about finances from the start.

2) What Are Your Credit Scores?

Your credit scores will factor into your ability to buy a car or house—or even rent an apartment. Since these events will inevitably happen during a long-term relationship, revealing your scores early will help you determine whether you're in good standing as a couple or if you'll need to improve your scores before attempting a big purchase. You can start by getting a credit report from Equifax, Experian, or TransUnion (you're entitled to one free report from each company per year). Go to AnnualCreditReport.com to get started. Need help getting your score up? Check out Credit Karma or NerdWallet for tips.

3) How Will You Split Expenses?

Drawing up a monthly budget is a huge step toward the goal of financial stability. Consider how much income you are bringing in, what your regular costs will be, and whether you will pay them from a joint account or split them up. There are many budgeting apps you can use to help you set up a plan and stick to it. You'll also want to have an emergency fund, which should cover three to six months of expenses. If you don't have enough to set those funds aside, factor a monthly contribution to your emergency fund into your budget plan.

4) What Is Your Risk Tolerance?

Whether you're a risk taker or have a more conservative approach, it helps to agree with your partner when it comes to investing as a couple. Risk tolerance also comes into play regarding debt or divorce. Although signing a prenuptial agreement is often associated with protecting your assets in case of a separation, it can also protect one partner from another's debts—either personal or business related. Having a conversation about the value of such a document could help prevent problems in the future.

5) Will You Have Kids?

According to the Brookings Institute, the average cost of raising a child born in 2015 through the age of 17 is $310,605. Needless to say, having a child—and certainly having multiple children—would be a major expense. Childcare (or living on one income if a parent is caring for the child) is another big cost to consider. Hospital expenses are often high before your child even arrives. In addition, adoption, IVF, surrogacy, and egg freezing and storage can be expensive, should you go through any of those processes.

6) What Are Your Plans for Retirement?
Once you've had these important financial conversations, you'll be on track to eventually head into your golden years and retire together. You should start planning for that as soon as possible. The earlier you set up a retirement plan and start accumulating savings, the less you'll need to contribute on a regular basis. If your employer offers a 401(k) or another plan, decide if you can afford to start contributing now. If they offer to match a percentage of your contribution, that's even more incentive to enroll.

Discuss your retirement plans with your partner. At what age do you hope to retire? How much savings will you realistically need to support yourselves from that retirement age through the rest of your lives? Do you plan to travel? Relocate? Talking through these answers will help determine how much you need to save together to retire comfortably.

Although this isn't the most romantic list, a solid financial foundation is a critical aspect of a long-lasting partnership. If you need additional information about any of these discussion topics, please reach out to our office.

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More on SECURE 2.0 Act of 2022

Sarah Ruef-Lindquist, JD, CTFA

By Sarah Ruef-Lindquist
For Pen Bay Pilot

Recently we shared information about the increase in the age for the Required Beginning Date (RBD) for taxpayers to begin taking annual Required Minimum Distributions (RMD's) from retirement assets like Individual Retirement Accounts (IRA's). This was a key part of SECURE 2.0 and there are several more provisions that impact taxpayers that are working or retired. To recap, the RBD age for those born in the years including 1951 through 1959, is 73 and for those born in 1960 or later, the age is 75. This is potentially a greater period of time for these assets to grow tax-free until withdrawals must begin and income tax paid on those withdrawals.

For those who fail to take their RMD, there has historically been a penalty of 50% of the amount required to be taken but not distributed. This was a significant incentive for people to be sure to take the full amount of their RMD. SECURE 2.0 reduced the penalty to 25% and for those able to correct the underpayment “in a timely manner” the penalty is 10%.

The law also expanded the opportunity to put funds into retirement accounts on a pre-tax basis. For taxpayers aged 50 or older, the IRA “catch up” contribution of $1,000 (on top of the contribution limit of $6,500) will be adjusted annually for inflation starting in 2024.

Beginning in 2025, retirement plan participants (401(k) and 403(b) plans, for example) age 60-63 will have a catch-up limit of up to $10,000 or 50% of the regular catch-up limit (currently $7,500) whichever is greater. The 2023 contribution limit for these plans is $22,500.

Currently those participants aged 50 or older have a catch-up limit of $7,500 ($3,500 for SIMPLE IRA’s). In 2023 the SIMPLE Contribution limit is $15,500 and catch-up amount for those 50 and over is $3,500.

All of these provisions offer a greater opportunity for taxpayers to save more with pre-tax earnings toward their retirements. Many more provisions of the SECURE 2.0 Act involve new rules for qualified plans and their administration. If you are an employer with a plan, your plan administrators should be able to update you on the provisions that impact your plan and employees.

Taxpayers should consult with their own tax advisors to understand the impact of these provisions on their particular financial situation.

Diving into 2023: Retirement Legislation “SECURE 2.0” Passes House & Senate, President Biden to Sign into Law

Sarah Ruef-Lindquist, JD, CTFA

By Sarah Ruef-Lindquist
For Pen Bay Pilot

There are not two, but three certain things in life: Death, taxes and change. This third element was brought home to us recently in the legislation that yet again would change the landscape for retirement planning, saving and spending in potentially radical ways.

A few years ago, the SECURE act increased the age at which one was required to draw out tax-deferred retirement savings from age 70 ½ to 72, causing a great deal of confusion initially, but simplifying the matter overall, since people have a hard time with half-year calculations. This allowed folks to wait a little longer before drawing out a required minimum distribution (RMD) and perhaps more significantly, paying income taxes on the withdrawal. It also allowed a bit more time for funds to grow tax free.

The IRS penalty for failure to make such withdrawal has been 50% of the RMD amount not withdrawn, a big incentive for making full timely withdrawals.

Now we are faced with the RMD age increasing again in 2023 to 73 (known as the RBD, or Required Beginning Date), and yet again in 2033 to age 75. Here's how this would work for 2023: If you were born after December 31, 1950 (in other words, not yet 72 by 12/31/2022) then your RMD age is 73. So if you turn 72 in 2023, your RMD does not start until 2024.

Here's an example of that. John's birthdate is January 5, 1951. Under the "old" provision, he would have to begin his RMD in 2023, because he turns 72 on January 5, 2023. However, under SECURE 2.0 having not reached the age of 72 by 12/31/22, his RMD age would be 73. Technically, he does not have to take a distribution in 2024 when he turns 73 but could delay until April 1, 2025. However, since he would have another RMD amount in 2025, taking the 2024 amount in the same year as 2025 could result in higher tax rates applying, so he might be smart to go ahead and start in 2024 with his first minimum distribution.

So RMD age is now 73, and your first distribution is not due until April 1 of the year following your 73rd birthday, but it's often better to take it in the calendar year of your RBD so you don't have to take multiple distributions in the same tax year.

Also under SECURE 2.0 when we get to 2032, less than 10 years from now, RMD age will increase to 75 if you haven't turned 74 by the end of 2032. So, in 2033, the age for RMD's is 75.

Delaying the Required Beginning Date (RBD) for RMD's – increasing the age to 73, and then 75 – offers retirement savers the opportunity to continue to allow their tax-deferred savings to grow free of tax until RMD's begin and income taxes are paid on those withdrawals.

The original SECURE Act also eliminated the age limitation on making contributions to IRA's in recognition of people working later and later in life, just as the increase in the RMD age recognizes a tendency for people to continue to earn income beyond more a traditional retirement age of 65 and have less reliance on retirement income until much later in life.

So we could say we are starting 2023 with positive news on the retirement savings and planning front. There's much more to the legislation knowns as SECURE 2.0 but we'll save that for another time.

Tax Changes You Need to Know

About for 2022

At the end of a year dominated by inflation, interest rate hikes, market turbulence, and recession fears, we can all use a break. Thankfully, the Internal Revenue Service (IRS) has offered a few new tax guidelines to try to account for the various economic factors affecting many Americans in 2022. While some rules will help you reduce your taxable income or increase your refund, others are reverting to pre-pandemic levels. As you prepare your paperwork for the April 18, 2023 deadline, use this overview to be sure that you're aware of the latest updates. If you have questions about filing your taxes, contact your tax specialist.

The standard deduction increased. Here's the first piece of good news: the IRS raised the standard deduction this year in response to growing inflation. To determine whether this increase will affect your taxes, you first need to determine whether it would be beneficial for you to take the standard deduction or itemize deductions on your tax returns. If your itemized deduction total would be lower than the standard deduction (which you can take without itemizing), your best and easiest bet would be to take the standard deduction. For married couples filing jointly, the standard deduction was bumped up $800 to $25,900. For single filers and married individuals filing separately, it is now $12,950 (up $400 from last year). There is currently no limitation on itemized deductions; that was eliminated by the Tax Cuts and Jobs Act. This unlimited itemized deduction rule will expire in 2025 unless a new law is passed.

There are no longer above-the-line charitable deductions. Last year, you could take a charitable donation deduction of up to $300 for single donors or up to $600 for married couples beyond the standard deduction. In 2022, if you take the standard deduction, that is no longer an option. If you itemize deductions, however (meaning your itemized deductions would be greater than the standard deduction), you can include charitable donations.

The Child Tax Credit reverted to 2019 levels. Temporary changes made to the Child Tax Credit last year as part of the American Rescue Plan have not been extended through 2022. This means the credit is $2,000 per child (a $1,000–$1,600 drop from last year), the maximum age children can qualify for it is 16 (17-year-olds qualified last year), and the early monthly installments we saw last year aren't being offered. The credit is refundable up to $1,400 but is no longer fully refundable. The **Earned Income Tax Credit** and the **Dependent Care Credit** also reverted to 2019 amounts.

Eligibility for the Premium Tax Credit remains expanded. One tax credit expansion from 2021 that remains in effect for 2022 is eligibility for the premium tax credit (PTC), which covers premiums for health insurance purchased through the Health Insurance Marketplace. The temporary change included in the American Rescue Plan Act of 2021 eliminated the rule that said if your household income is more than 400 percent above the poverty line, you could not qualify for a PTC. Without this restriction, many more people can potentially qualify.

There will be no additional stimulus payments. Although many Americans were thrilled to see additions to their tax refunds in 2020 and 2021, there will be no stimulus payments for 2022. So, be sure that you don't count on that extra income when you budget for 2023. 2021 was also the last year to claim the **Recovery Rebate Credit** for a missed or lesser stimulus payment.

The threshold that triggers a Form 1099-K decreased. The IRS has always required reporting of all taxable income, but up until this year, Form 1099-K was required only if you had more than 200 goods and services transactions via a third-party payment network in a year and exceeded $20,000 in transactions. This year, the threshold is much lower at only $600, with no minimum number of transactions. This means more small businesses will receive this form from third-party payment networks than in the past. If it is required, you should receive it by January 31, 2023.

This is just a brief overview of some of the IRS changes for the 2022 tax year. A tax professional can help you determine which rules apply to your specific finances and how you can maximize the benefits available to you. Please feel free to reach out to our office for additional guidance.

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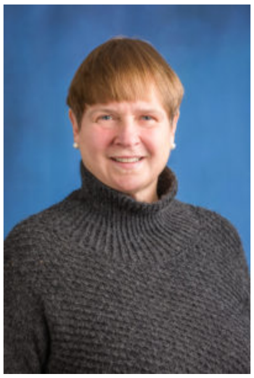
Making Lemonade From Lemons: Long-Term Capital Loss Stock Creates Another Type of Tax-

Efficient Charitable Gifting Opportunity



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For Pen Bay Pilot

For those of us working in the area of wealth management, 2022 will long be remembered as the year the stock market rolled gains back – way back – to pre pandemic levels. 2021 ended on a high note…the indices at or near all-time highs, after a climb from a downtick in early 2020 as the pandemic set in and the economy shut down. As 2021 came to a close, charitable gifts of long-term capital gain stock were the norm, and plentiful.

Then the markets began a slide as January slipped into February and valuations, including bond values as interest rates were raised by the Fed, walloping investors who have long relied upon a balanced portfolio to weather the storms of market volatility. As 2022 comes to a close, investors are seeing some signs of market value recovery, but it's feeling a like it could be a very slow, volatile, long climb ahead.

Donors may feel that what would have been a great, tax-efficient opportunity to use long-term appreciated stock has gone by…and it may have, for a while. But let’s not forget the other side of that charitable gifting sword: using long-term capital losses to fund charitable gifts.

How could that work? A sale of stock that has been held more than 1 year that has declined in value below its basis or purchase price can generate a loss, and the proceeds of the sale can be used for a charitable gift.

Let’s say you purchased or inherited stock with a basis of $5,000 and held it for more than a year. The current value is $1,000. If you sell it, your loss is $4,000, which can be used to offset gains now or in future years as a carry-forward. What gains? Many mutual funds declare gains, even in years when the stock market has had an overall decline, so many investors will actually have realized gains within their portfolios, even if they haven’t sold anything. Losses can be used to offset gains.

You can use the $1,000 proceeds to make a gift of stock to charity and if you itemize, you can take an itemized deduction for that $1,000. That’s a lot of tax savings, now and in future years.

Consult with your tax or financial advisor to learn more about this opportunity and how it could apply to your situation before Dec. 31, 2022.