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FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

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KEY TAX CHANGES FOR 2022

Do you have taxes on your mind? With various tax forms for your 2021 returns rolling in, we're guessing you do. Those returns might have you wondering what you can expect for tax year 2022. Read on for a brief overview of key tax changes to plan for this year.

Changes to the Top Income Tax Bracket

If you're in the top tax bracket of 37%, you have something to thank inflation and rising consumer prices for. As of this writing, the 37% tax rate will affect less of your income.

If you're an individual taxpayer, you won't enter the bracket until your income surpasses $539,900, up from $523,600 for 2021. For married-filing-jointly couples, the 2022 rate is $647,850, up from $628,300 in 2021.

Take note: The numbers are automatically adjusted based on inflation, so they could change. Plus, potential legislation affecting high-income taxpayers is still working its way through Congress. Stay tuned.

Increase in the Standard Deduction

One of the key tax changes for 2022 is an increase in the standard deduction—again, based on inflation.

If you're a single taxpayer, the standard deduction has increased $400 to $12,950. If you're a joint filer, the standard deduction has climbed by $800 to $25,900.

Other Changes to Know

We lack the space to highlight all the changes to plan for in 2022. The changes likely to affect the most taxpayers include:

401(k) contributions: The amount you can contribute in 2022 has increased $100 to $20,500. The combined employer-employee contribution limit is $61,000. If you're 50 or older, your catchup contribution remains $6,500, for a total limit of $67,500.

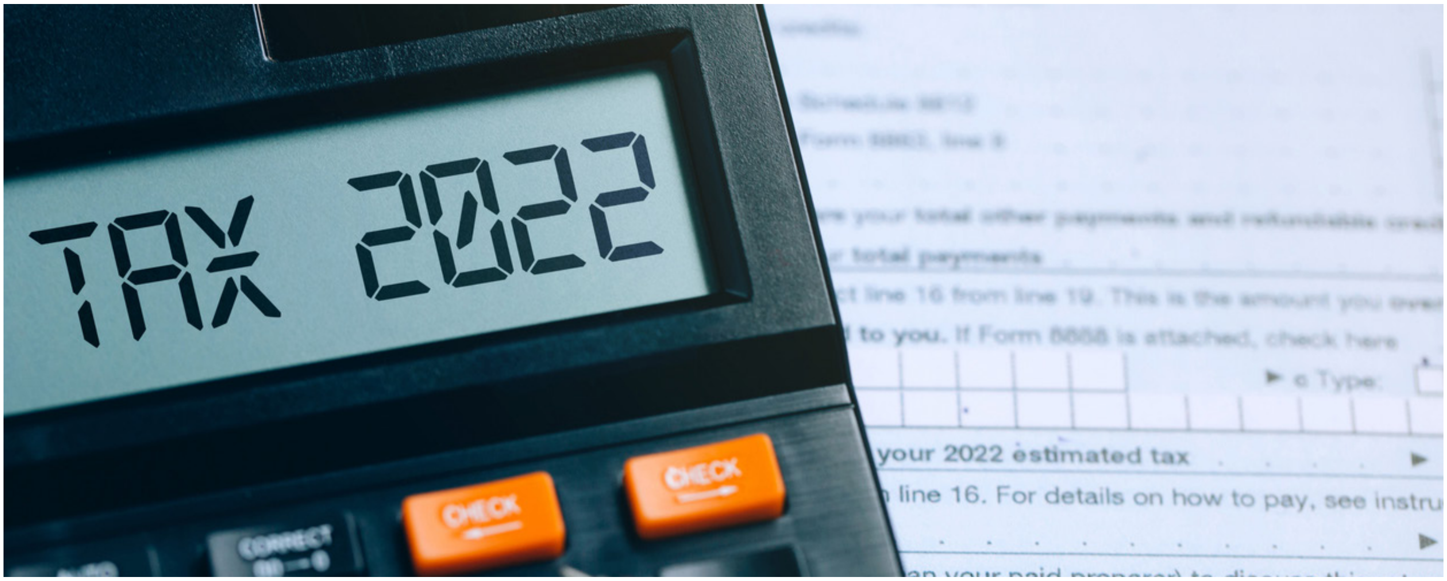
Solo 401(k) contributions: Total employer-employee contributions increased $3,000 to $61,000 for 2022. If you're 50 or older, your catchup contribution is still $65,000.

IRA contributions: Sorry, but no changes here. Your IRA contribution limit remains $6,000, and the catchup contribution is still $1,000 if you're 50 or older.

Flexible spending accounts: You can contribute $100 more to your FSA in 2022, for a total of $2,850.

Health savings accounts: If you have self-only coverage, you can contribute $50 more to your HSA for a total of $3,650. If you have family coverage, the increase is $100 for a total of $7,300. The catchup contribution is $1,000 if you are 55 or older.

Capital gains: Income thresholds for long-term capital gains are increasing for the 2022 tax year. If you're single, you'll be charged at 0% for $0 to $41,675; 15% for $41,676 to $459,750; and 20% for $459,751-plus. For married couples filing jointly, the numbers are 0%, $0 to $83,350; 15%, $83,351 to $517,200; and 20%, $517,201-plus.



Third-party payment apps: If you accept payments from apps like PayPal and Venmo or sell wares on sites like Etsy, you face changes intended to make tax evasion more difficult. The payment app providers must now issue you IRS Form 1099-K if your income exceeds $600 per year. Previously, you would receive the 1099-K if you had more than 200 transactions that totaled $20,000 or more. (This rule does not affect personal transactions.)

Talk to Your Advisor

Many people wait until the end of the year to start tax planning. But this list shows that an early start is the best strategy to take advantage of any changes. You could even make yearlong tax planning one of your New Year's resolutions. As your financial advisor, we already provide proactive tax planning as part of your comprehensive financial planning. Reach out to us and let us know if you have new ideas or questions for the year ahead.

WHAT GOES UP ... KEEPS GOING UP? INFLATION BASICS

The financial topic *du jour* is inflation. Seems every financial news outlet and publication is pushing the narrative hard that we're in a period of price increases we haven't seen since the 1980s. One prominent politician recently commented that people need to win the lottery just to afford a tankful of gas.[1]

That statement may be a bit hyperbolic, but we've all seen inflation in prices—not just gas, but groceries, rent, and many of the other things we spend money on every day. Even Dollar Tree has raised prices. They're Dollar-Twenty-Five Tree now.

Many factors can contribute to above-average inflation, and it is often a combination of several. Here are a few common causes:

1. **High demand:** When demand for products and services is greater than supply, companies can, and often do, raise prices. Higher prices reduce demand, but inflation is the result.

2. **Cost of goods:** Price increases at one end of a supply chain can have a ripple effect. When the cost of raw materials needed to manufacture products increases, companies will try to pass those increases along to distributors by raising prices, who will look to do the same when they sell to retailers and, ultimately, consumers.

3. **Money supply:** Governments and central banks use the money supply to control the rate of growth of the economy. If an "easy money" policy causes the money supply to increase faster than the supply of goods and services available to purchase, we go back to Cause #1: high demand.

We can debate which of these factors is contributing to current inflation, but a more important discussion is: What do we do about it? How do you protect yourself from the loss of value of the money you've worked so hard to save over your lifetime?

As with all investment decisions, you have many options. History and economic theory can give us clues as to which strategies we would expect to do well and not well during an inflationary period. Let's look at a few:

Cash: Everything else being equal, there really isn't a worse strategy to protect yourself against inflation than keeping your money in cash. We wouldn't recommend the strategy when inflation is low—one dollar left in cash in 1990 would be worth about 50 cents today—and the numbers are much worse when inflation rises.

Simply put, with every increase in price, your cash buys less. You may mitigate other risks by moving to cash, like market volatility, but you are completely exposed to inflation risk.

TIPS: Inflation-protected Treasury bonds, called TIPS, are specifically designed to hedge against inflation. They pay a fixed interest rate similar to regular Treasury bills. But the value of the bond rises with inflation, so your initial investment does not decrease in value as prices rise.

While TIPS can be a valuable part of a portfolio, overconcentration brings a risk as well: The interest rate is very low (currently 0.13% on five- and 10-year notes). In fact, the current rate is so low, **the actual return you get between now and maturity is actually negative!**

Gold: A whole lot of people out there say gold is a great investment to hedge against inflation, and a lot of those people have something in common: They're selling gold.

The historical record on gold is spotty at best. In the 1970s, according to Morningstar, gold's return outpaced high inflation, but when inflation was milder in the 1980s, gold had a negative return.

Gold prices are about as volatile as stocks, but over the long term, gold's return is lower than not only stocks but bonds as well. So when you see that commercial for gold—and you will—turn the channel!

WANT A COPY OF OUR LATEST ADV?

It's that time of year when we update our Form ADV. This is the brochure that the SEC requires Registered Investment Advisors to maintain. You'll find a summary of material changes since last year's update on Page 2.

Want a copy? Just shoot us an email, and we'll send it out.

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Stocks: It seems counterintuitive, given that inflation news over the past few weeks has propelled the major stock indices downward, but the evidence is clear: Investing in a diversified portfolio of stocks is an excellent strategy to outpace inflation.

Overall, stock returns have exceeded average inflation, and the same outperformance is evident in periods of high inflation as well. This makes perfect sense. What drives inflation? Higher prices. Who benefits from higher prices? Companies selling those goods and services at higher prices, thus earning more money. What happens when companies earn more money? Their stock price goes up.

Note the stock strategy is not as reliable in an undiversified portfolio: Don't try to pick winners. And diversification also includes geographic diversification: Inflation doesn't hit all countries the same or at the same time.

Having a significant portion of your money invested in developed countries and emerging markets can offset the short-term impact of inflation in a single country.

—Steve Tepper

[1] https://www.youtube.com/watch?v=r1qql8KYoHw

Sources:

"Helping Clients Understand Inflation" by Scott MacKillop, Advisorperspectives.com, February 3, 2022.

"Beware the Hype When Investing in Gold" by Amy C. Arnott, CFA, Morningstar.com, July 27, 2020.