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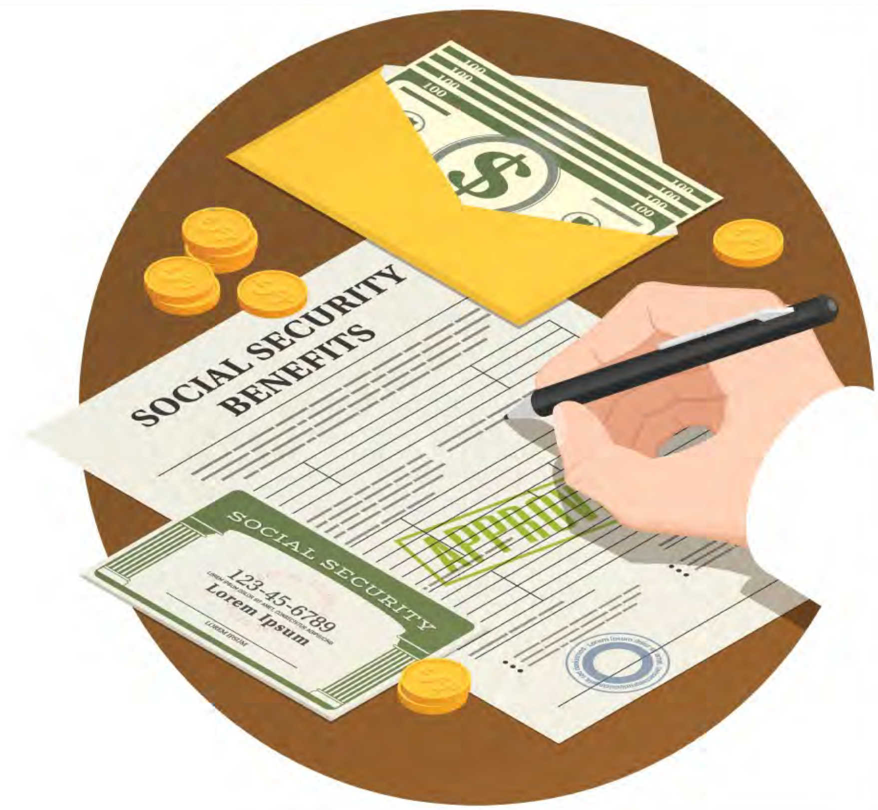

MONEYLINE

How Are Social Security Benefits Taxed?

Courtesy of 2M Financial Group

Q: ***Can you explain how Social Security benefits are taxed? And is there any possibility that Congress will allow retirees to keep more of their benefits from taxation?***

A: To figure whether your Social Security benefits are subject to taxation, you first need to figure your "provisional income." That's your adjusted gross income plus tax-free interest from municipal bonds and 50% of your Social Security benefits.

If your provisional income is below $25,000 ($32,000 on a joint return) then the benefits are tax-free. If your provisional income is between $25,000 and $34,000 on a single return, or between $32,000 and $44,000 for joint filers, then up to half the benefits are taxable. For provisional income over $34,000 for singles ($44,000 for couples) up to 85% of your benefits are taxable.

Congress is often debating this issue. Recent proposals included increasing the tax-free limit, and increasing the income level at which the 6.2% Social Security tax for employees and employers is capped. The current annual wage base at which Social Security tax is capped is $147,000 for 2022. Of course, one can never count on proposals in Congress becoming law until the process plays itself all the way out. It is best to seek professional tax advice for any updates and how they impact your situation.

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MILESTONES MATTER

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Workers overestimate their expected Social Security benefits by an average of $307 a month. *One possible reason:* They are unclear how much their benefits would be reduced if claimed before full retirement age. Women were more prone than men to expect too much, overestimating benefits by nearly $4,000 annually. Find personalized estimates depending on the age you start drawing benefits at SSA.gov/myaccount.
Source: BottomLine Personal

Looking for a house? Here's where you're most (and least) likely to find one. Based on a number of recent active listings per 10,000 homes, the following metropolitan areas have the most or fewest homes for sale. *Most:* Miami-Fort Lauderdale—337 per 10,000, recent median price $417,000… Atlanta—219, median price $380,000….New York—190/median price $805,000…Las Vegas—190/median price $370,000…Jacksonville—184/median price $265,000. *Fewest:* Milwaukee—52/median price $186,000…Columbus—51/median price $255,000…. Rochester, New York—49/median price $170,000… San Jose—41/median price $1,250,000…Buffalo—39/median price $225,000.
Source: Redfin.com

"A tragic irony of life is that we so often achieve success after the chief reason for which we sought it has passed away."
—Ellen Glasgow

Roth IRAs vs. Roth 401(k)s

By Elliott Raphaelson, Tribune Content Agency

Roth IRAs and Roth 401(k) plans are both great ways to invest for retirement, each conferring significant tax advantages. But don't make the mistake of mentally equating them. They differ, and it's important to understand how.

Recently, Ed Slott and Co. published a useful discussion of the differences on the company website. I'll recap some of the points made.

In 2022, individuals with sufficient income can contribute up to $6,000 per year ($7,000 for individuals 50 or older) to a Roth IRA as long as their income does not exceed specified limits. For married couples, the modified adjusted gross income (MAGI) for 2022 must be under $208,000; for single filers the MAGI must be under $144,000. Employees eligible to contribute to Roth 401(k)s in 2022 can contribute up to $20,500 (up to $27,000 for employees 50 or older). For Roth 401(k) employees there are no restrictions based on income levels.

There is no combined limit for contributions to Roth IRAs and Roth 401(k)s. So, for example, for 2022, if your employer offers a Roth 401(k) account, you could contribute a combined total of $25,500; if you are 50 or older, you could contribute $34,000.

The advantages of Roth 401(k)s over Roth IRAs are:

1. Higher annual limits and no income restrictions.
2. Stronger creditor protection. ERISA offers protection against non-bankruptcy creditor lawsuits. This protection does not apply to Thrift Savings Plan and solo 401(k) accounts.
3. Matching employer contributions in some plans.
4. Loan options available.
5. At age 55 or older, no early distribution penalty.

The advantages of Roth IRAs over Roth 401(k)s are:

1. No lifetime RMDs for both owners and surviving spouses. Roth 401(k)s are subject to RMDs.
2. More investment options. The only restrictions are associated with most collectibles, life insurance and S corporation stock.
3. Better accessibility. Roth IRA accounts can be withdrawn at any time. (However, there can be an early withdrawal penalty before 59 1/2.) Employees still working with Roth 401(k) accounts cannot make withdrawals before 59 1/2 except for financial hardship.
4. More favorable "non-qualified" distribution rules. Contributions to Roth IRAs are tax free and penalty free no matter which account contributions to Roth IRAs are made. Conversions to Roth IRAs are always tax free but are subject to penalty if the withdrawal is made before 59 1/2 and within five years of the conversion. Earnings from Roth IRAs are possibly subject to penalty when they are non-qualified. When non-qualified withdrawals are made from Roth 401(k)s, a portion of the distribution is usually taxable because pro-rata rules apply. For example, the taxable portion is the percentage of the amount of earnings divided by the total value of the Roth account balance.

Bottom line: There are advantages to both types of accounts. If you meet the eligibility requirements, there is no reason why you can't use both options to your advantage.

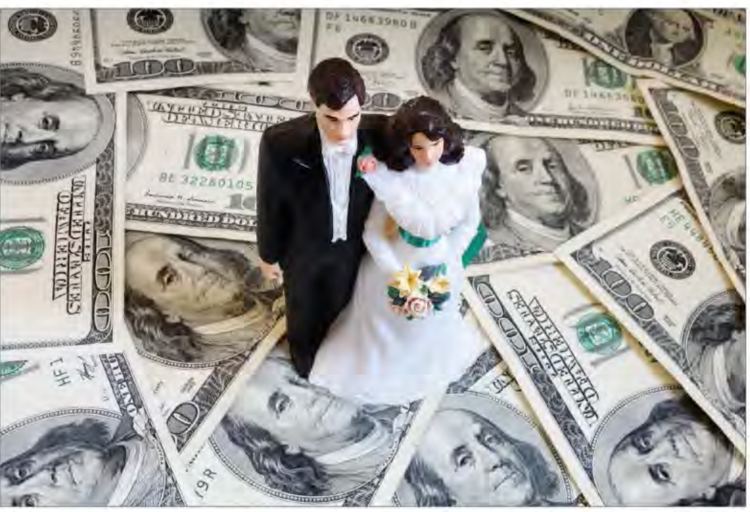
Marriage And Your Credit

By Rivan Stinson, Kiplinger's Personal Finance

Beverly Harzog, a credit card expert and consumer finance analyst for U.S. News & World Report, discusses the relationship between credit and marriage.

Q: *What do people get wrong about how marriage affects their credit?*

A: One common misconception is that you have a joint credit report. You each still have your own credit report, and the same goes for your credit scores. Another misconception is that you have to apply for credit together. You can apply for things like a mortgage or a credit card together, but each partner should have their own credit established. If you need to establish your own credit because, say, your spouse dies or you get a divorce, a difficult situation could become even more difficult.



Q: *Are there instances in which it's a bad idea for a couple to apply for credit together?*

A: Let's go back to the mortgage example. If both spouses have a relatively high credit score, you're more likely to get approved at the best rates because lenders don't see you as a risk. However, let's say one spouse has a credit score that's 100 points higher than the other spouse's score. In a situation like that, the spouse with the best credit score should apply for the mortgage — assuming they have sufficient income to apply on their own. Otherwise, you may not get the best interest rate on the loan, or you might not get approved at all.

People wrongly assume that lenders will just look at the top score. They will consider both of your scores. If one spouse has a low score, a lender will consider you a higher risk because of the possibility that that spouse will end up being responsible for the payments. The same goes for applying for a joint credit card.

Q: *But what if one spouse is trying to reestablish or improve his or her credit standing?*

A: First, you need to understand why that spouse doesn't have a good credit score. Is it because they've just never tried to build credit? Or is their score low because they missed payments on their bills? From there, you can decide whether you want to help that spouse improve their credit by adding them as an authorized user on one of your accounts.

If you add your spouse as an authorized user, make sure the credit card issuer will report your spouse's use of the card linked to your account to the credit bureaus. Not all of them do. Next, you need to understand that you're on the hook if your spouse runs up a balance and fails to pay it off.

"So far I've got $900 saved for my retirement plus 250,000 little packets of sugar, ketchup and crackers."

Watch out for "shrinkflation." Manufacturers hope that customers won't notice they're paying the same amount for less product if they keep the outside package the same size—"shrinkflation.' *Example:* A tube of toothpaste that previously held 7.2 ounces now contains only five ounces of toothpaste—but the tube is the same size. *Self-defense:* Check unit pricing—the retail price of the item per unit, such as per ounce. Consider buying store brands, which cost less than nationally advertised brands. Beware especially of products marked "new and improved"—the phrase often means that the package is new and contains less product or costs more.
Source: Clark.com

Budgeting plan that helps build savings: The "70/20/10" budget plan allocates 70% of your income for monthly spending (mortgage or rent, utilities, car payments, credit card bills, groceries, medical bills, entertainment, dining out)…20% for savings and investments (emergency fund, investment account, college savings plan, funds for future purchases)…and 10% to chip away at debt or for charity (such as repaying personal loans, making extra payments on a student loan or mortgage loan, or donating to a cause you love).
Source: ThePennyHoarder.com

"Money isn't the most important thing in life, but it's reasonably close to oxygen on the "gotta have it" scale."
—Zig Ziglar

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Tax Deductions For Self-employed

By Rocky Mengle, Kiplinger's Personal Finance

Q: ***I'm self-employed and frequently use my car for business. Can I deduct the use of my vehicle on my tax return, and if so, how much?***

A: Any self-employed person who makes deliveries, drives to a client's location or otherwise uses a personal vehicle for work-related purposes can claim a deduction.

There are two ways to calculate the deduction —the standard mileage rate or your actual car expenses. If you use the standard mileage rate, you can deduct 58.5¢ for every mile driven for business in 2022.

With the actual expense method, you add up all your car-related expenses for the year — gas, oil, tires, repairs, parking, tolls, insurance, registration, lease payments, depreciation, etc. — and multiply the total by the percentage of total miles driven that year for business reasons. For example, if your total annual car costs are $5,000 and 20% of your miles were for business, then your deduction is $1,000 ($5,000 x .2).

Q: ***Are medical expenses or health insurance premiums deductible if you're self-employed?***

A: Although medical expenses are deductible, relatively few taxpayers really get to deduct them. First, you must itemize to get this tax break (and most taxpayers do not). Second, you get a deduction only to the extent your expenses exceed 7.5% of your adjusted gross income.

But there's a big exception for the self-employed. You can deduct what you pay for medical insurance for yourself and your family, whether or not you itemize and without regard to the 7.5% threshold. You don't qualify, though, if you're eligible for employer-sponsored health insurance through your job (if you have one in addition to your business) or your spouse's job.

Plus, if you continue to run your businesses after qualifying for Medicare, the premiums you pay for Medicare Part B and Part D, plus the cost of supplemental Medicare policies can be deducted.

This article is provided for general informational purposes only. Please consult your own tax advisor for advice.