

April 2022 CTCA Insights

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Happy Spring...although the weather isn't quite reflecting that yet. It was an eventful first quarter with a great deal happening on the geopolitical and economic fronts. As a result, we've seen a significant amount of market volatility in pretty much every asset class. These times are never fun, but they are a good reminder of the importance of sound planning and broad diversification.

On the CTCA front, we were very pleased to announce the addition of Bill Hansen to the team in January. Also, later this month we will be moving to our new office at 3280 Woods Way in Petoskey. We'll be sending out a reminder email in a couple of weeks with further details.

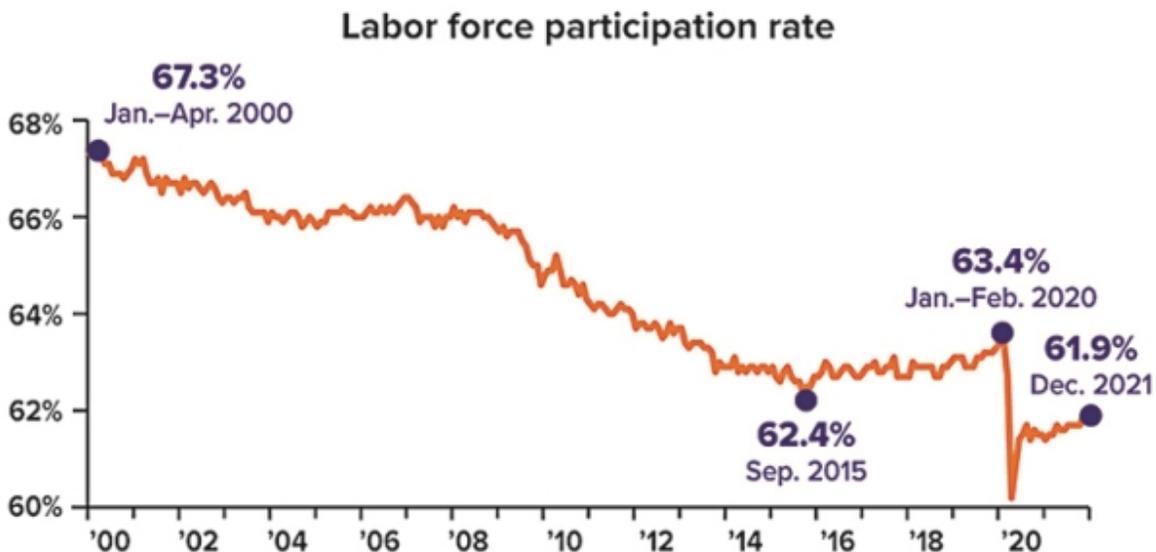
Until Next Time,

John Marshall, Courtney Font, Bill Hansen

Where Are the Workers?

The labor force participation rate — the percentage of Americans age 16 and older who are working or actively looking for work — peaked in early 2000, when it began to drop due to aging baby boomers and more young people in college. Participation was rising before plummeting at the onset of the pandemic.

The rate has only partially recovered due in large part to accelerated retirement among workers age 55 and older. Other reasons include fewer child-care workers, reduced immigration, and many workers unwilling to return to low-paying jobs. Some experts believe it may never return to pre-pandemic levels. The question for the U.S. economy is whether technology and other productivity measures can maintain economic growth with a smaller percentage of the population in the workforce.



Sources: U.S. Bureau of Labor Statistics, 2016 & 2022; *The Wall Street Journal*, October 14, 2021; CNN, December 15, 2021

Key Retirement and Tax Numbers for 2022

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2022.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2022 is \$16,000, up from \$15,000 in 2021.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2022 is \$12,060,000, up from \$11,700,000 in 2021.

Standard Deduction

Taxpayers can generally choose to itemize certain deductions or claim a standard deduction on their federal income tax returns. In 2022, the standard deduction is:

- \$12,950 (up from \$12,550 in 2021) for single filers or married individuals filing separate returns
- \$25,900 (up from \$25,100 in 2021) for married joint filers
- \$19,400 (up from \$18,800 in 2021) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2022 is:

- \$1,750 (up from \$1,700 in 2021) for single filers and heads of household
- \$1,400 (up from \$1,350 in 2021) for all other filing statuses

Special rules apply for those who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$6,000 in 2022 (the same as in 2021), with individuals age 50 or older able to contribute an additional \$1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges (see *chart*). For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges (see *chart*). The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to a Roth IRA

	2021	2022
Single/Head of household	\$125,000–\$140,000	\$129,000–\$144,000
Married filing jointly	\$198,000–\$208,000	\$204,000–\$214,000
Married filing separately	\$0–\$10,000	\$0–\$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2021	2022
Single/Head of household	\$66,000–\$76,000	\$68,000–\$78,000
Married filing jointly	\$105,000–\$125,000	\$109,000–\$129,000

Note: The 2022 phaseout range is \$204,000–\$214,000 (up from \$198,000–\$208,000 in 2021) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is \$0–\$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.

Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$20,500 in compensation in 2022 (up from \$19,500 in 2021); employees age 50 or older can defer up to an additional \$6,500 in 2022 (the same as in 2021).
- Employees participating in a SIMPLE retirement plan can defer up to \$14,000 in 2022 (up from \$13,500 in 2021), and employees age 50 or older can defer up to an additional \$3,000 in 2022 (the same as in 2021).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above \$2,300 in 2022 (up from \$2,200 in 2021) is taxed using the parents' tax rates.

Working While Receiving Social Security Benefits

The COVID-19 recession and the continuing pandemic pushed many older workers into retirement earlier than they had anticipated. A little more than 50% of Americans age 55 and older said they were retired in Q3 2021, up from about 48% two years earlier, before the pandemic.¹

For people age 62 and older, retiring from the workforce often means claiming Social Security benefits. But what happens if you decide to go back to work? With the job market heating up, there are opportunities for people of all ages to return to the workforce. Or to look at it another way: What happens if you are working and want to claim Social Security benefits while staying on your job?

Retirement Earnings Test

Some people may think they can't work — or shouldn't work — while collecting Social Security benefits. But that's not the case. However, it's important to understand how the retirement earnings test (RET) could affect your benefits.

- The RET applies only if you are working and receiving Social Security benefits *before* reaching full retirement age (FRA). Any earnings after reaching full retirement age do not affect your Social Security benefit. Your FRA is based on your birth year: age 66 if born in 1943 to 1954; age 66 & 2 months to 66 & 10 months if born in 1955 to 1959; age 67 if born in 1960 or later.
- If you are under full retirement age for the entire year in which you work, \$1 in benefits will be deducted for every \$2 in gross wages or net self-employment income above the annual *exempt amount* (\$19,560 in 2022). The RET does not apply to income from investments, pensions, or retirement accounts.
- A monthly limit applies during the year you file for benefits (\$1,630 in 2022), unless you are self-employed and work more than 45 hours per month in your business (15 hours in a highly skilled business). For example, if you file for benefits starting in July, you could earn more than the annual limit from January to June and still receive full benefits if you do not earn more than the monthly limit from July through December.
- In the year you reach full retirement age, the reduction in benefits is \$1 for every \$3 earned above a higher annual exempt amount (\$51,960 in 2022 or \$4,330 per month if the monthly limit applies). Starting in the month you reach full retirement age, there is no limit on earnings or reduction in benefits.
- The Social Security Administration may withhold benefits as soon as it determines that your earnings are on track to surpass the exempt amount. The estimated amount will typically be deducted from your monthly benefit in full. (See *example*.)

- The RET also applies to spousal, dependent, and survivor benefits if the spouse, dependent, or survivor works before full retirement age. Regardless of a spouse's or dependent's age, the RET may reduce a spousal or dependent benefit that is based on the benefit of a worker who is subject to the RET.

Back to Work

In this hypothetical example, Fred claimed Social Security in 2021 at age 62, and he was entitled to a \$1,500 monthly benefit as of January 2022. Fred returned to work in April 2022 and is on track to earn \$31,560 for the year — \$12,000 above the \$19,560 RET exempt amount. Thus, \$6,000 (\$1 for every \$2 above the exempt amount) in benefits will be deducted. Assuming that the Social Security Administration (SSA) became aware of Fred's expected earnings before he returned to work, benefits might be paid as illustrated below.

JANUARY \$1,500	FEBRUARY \$1,500	MARCH \$1,500	APRIL \$0
MAY \$0	JUNE \$0	JULY \$0	AUGUST \$1,500
SEPTEMBER \$1,500	OCTOBER \$1,500	NOVEMBER \$1,500	DECEMBER \$1,500

In practice, benefits may be withheld earlier in the year or retroactively, depending on when the SSA becomes aware of earnings.

The RET might seem like a stiff penalty, but the deducted benefits are not really lost. Your Social Security benefit amount is recalculated after you reach full retirement age. For example, if you claimed benefits at age 62 and forfeited the equivalent of 12 months' worth of benefits by the time you reached full retirement age, your benefit would be recalculated as if you had claimed it at age 63 instead of 62. You would receive this higher benefit for the rest of your life, so you could end up receiving substantially more than the amount that was withheld. There is no adjustment for lost spousal benefits or for lost survivor benefits that are based on having a dependent child.

If you regret taking your Social Security benefit before reaching full retirement age, you can apply to withdraw benefits within 12 months of the original claim. You must repay all benefits received on your claim, including any spousal or dependent benefits. This option is available only once in your lifetime.

1) Pew Research Center, November 4, 2021

When Buying Is Easy, Paying Later Can Be a Problem

If you shop online, you might have noticed a growing number of buy now, pay later (BNPL) services that offer the option to spread out the payments on your purchases. Buyers who make one partial payment upfront and agree to several additional interest-free installments can receive their orders right away. This is a key difference from the layaway plans of the past: Shoppers had to wait until the balance was paid to take their goods home. Many stores discontinued layaway plans in the 1980s when the use of credit cards became widespread.

However, speedy access to credit also provides instant gratification and allows for more impulse buying. It might tempt you to overspend on things you don't really need and probably wouldn't buy if you had to save up and/or pay 100% of the cost upfront. And if you make a lot of smaller purchases across multiple services, it may be harder to keep track of how much you are actually spending.

In fact, one criticism of BNPL services is that they make it easier for consumers to fall into debt. As with credit cards, you would face financial consequences such as late fees and/or high interest rates if you encounter a financial setback and can't pay the installments on schedule.

Another point to consider is that credit-card companies report on-time payments to the credit bureaus, so using credit cards responsibly can help you build a positive credit history. In contrast, some BNPL lenders may not bother to report on-time payments — though they will surely report missed payments and collections. Before you use any BNPL service, read the fine print carefully to make sure you understand the terms and conditions and the company's credit reporting policies.



By one estimate, BNPL amounted to nearly \$100 million — or about 2.1% — of all global e-commerce transactions in 2020. This share is projected to double to 4.2% by 2024.

Source: Worldpay Global Payments Report, 2021

BNPL plans are more popular with younger consumers trying to stretch their paychecks, partly because they are more comfortable shopping online (and particularly on smartphones). At first glance, it may seem like a worthwhile convenience, but there are good reasons to think twice before committing to installment purchases.

Credit Is Credit

BNPL plans are essentially point-of-sale loans. Applying for the financing is quick and easy, which seems like a plus when time is tight.

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John Marshall is an Investment Advisor Representative with Dynamic Wealth Advisors dba Crooked Tree Capital Advisors. Advisory services offered through Dynamic Wealth Advisors.