Online Advisor – January 2023

Upcoming dates:

January 16

- Martin Luther King Jr. Day

January 17

- 4th quarter installment of 2022 estimated income tax is due for individuals, calendar-year corporations and calendar-year trusts & estates

Begin tax filing for 2022

- Organize tax documents (W-2s, 1099s, 1098s and other records)
- Schedule tax appointment or plan to drop off/upload records

Begin tax planning for 2023

- Create a budget
- Adjust your withholdings
- Rebalance investment portfolios

It's tax time! In the next couple of weeks you will be inundated with W-2s and various informational tax forms like 1099s. By paying attention to them, ensuring their accuracy, and that you are getting them all, you will be miles ahead in getting your tax return done. Spend a minute reviewing ways to get your tax information organized. Then consider some alternatives to the traditional new year's resolution craze.

All this plus new inflation adjustments are providing a retirement contribution opportunity for those who plan, plus ideas on resolving common financial surprises that will take the sting out of most of them.

As always, feel free to reach out with any question or comments.

It's Tax Time! Tips to Get Organized

The beginning of a new year brings the need to recap the previous one for Uncle Sam. Here are some tips and a checklist to help get you organized.

- **Look for your tax forms.** Forms W-2, 1099, and 1098 will start hitting your inbox or mailbox in the next couple of weeks. If you have not already done so, review last year's records and create a checklist of the forms to make sure you get them all.

- **Collect your tax documents using this checklist.** Using a tax organizer or last year's tax return, sort your tax records to match the items on your tax return. Here is a list of the more common tax records:
    - Informational tax forms (W-2s, 1099s, 1098s, 1095-A) that disclose wages, interest income, dividends and capital gain/loss activity
    - Other forms that disclose possible income (jury duty, unemployment, IRA distributions and similar items)
    - Business K-1 forms
    - Social Security statements
    - Mortgage interest statements
    - Tuition paid statements
    - Property tax statements
    - Mileage log(s) for business, moving, medical and charitable driving
    - Medical, dental and vision expenses
    - Business expenses
    - Records of any asset purchases and sales, including cryptocurrency
    - Health insurance records (including Medicare and Medicaid)
    - Charitable receipts and documentation
    - Bank and investment statements
    - Credit card statements
    - Records of any out of state purchases that may require use tax
    - Records of any estimated tax payments
    - Home sales (or refinance) records
    - Educational expenses (including student loan interest expense)
    - Casualty and theft loss documentation (federally declared disasters only)
    - Moving expenses (military only)

If you aren't sure whether something is important for tax purposes, retain the documentation. It is better to save unnecessary documentation than to later wish you had the document to support your deduction.

- **Clean up your auto log.** You should have the necessary logs to support your qualified business miles, moving miles, medical miles and charitable miles driven by you. Gather the logs and make a quick review to ensure they are up to date and totaled.

- **Coordinate your deductions.** If you and someone else share a dependent, confirm you are both on the same page as to who will claim the dependent. This is true for single taxpayers, divorced taxpayers, taxpayers with elderly parents/grandparents, and parents with older children.

With proper organization, your tax filing experience can be timely and uneventful.

Alternative Ideas to New Year's Resolutions

It's that time again when everyone has high hopes for how they are going to better themselves during the new year. The traditional way many people set goals, however, doesn't seem to be working! According to The Economic Times, only 16 percent of people follow through with New Year's resolutions. Here are seven alternatives to the traditional New Year's resolutions that could help you in 2023.

- **Make 3, 5, and 10-year goals.** Part of the problem with resolutions is they are oftentimes open-ended, such as, *I want to lose weight.* Instead, write down specific goals for 3, 5, and 10 years from now. Break your goals into categories like family, career, financial, and health. Having concrete future goals is a good starting point to creating an obtainable vision.
- **Create better connections.** Social media makes it easy to stay in touch with what friends and family are doing, but it often lacks true personal connection. As we exit the pandemic era, consider committing to intentional development of relationships with a list of people that are important in your life. Write out the list and put it in a spot you'll see every day. Then be consistent communicating with them and taking the time to actually reconnect in a meaningful way.
- **Reflect on the previous year.** Every year brings its share of happiness, challenges and things you never saw coming. Reflecting on these events is a great way to realize how much you've changed and grown over the past year. Whether the changes are positive or not so positive, acknowledging and analyzing will help you grow from your experiences and set you up for a better future.
- **Quit something.** For most of us, the days are overflowing with things to do and too many bills to pay. Why not take an inventory and quit something? Take back some of your income and time, to allow you to pursue something else or spend money on something more important to you.
- **Pretend like you are moving.** Walk around your house or apartment and make a list of things you'd like to improve or fix, just like you would do before moving. It can be a big thing like building a deck or a small thing like going through an old closet full of that stuff that you thought you might need someday. Donate it and keep the receipt – it might be a tax deduction!

LAMBERTY, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Plan Your Retirement Savings Goals for 2023

A big jump in cost-of-living calculations means a big jump in how much you can contribute to retirement accounts in 2023! Now is the time to plan your retirement contributions to take full advantage of this tax benefit. Here are annual contribution limits for several of the more popular retirement plans:

Plan		2023	2022	Change
SIMPLE IRA	**Annual Contribution**	$15,500	$14,000	+ $1,500
	50 or over catch-up	*Add $3,500*	*Add $3,000*	*+ $500*
401(k), 403(b), 457 and SARSEP	**Annual Contribution**	$22,500	$20,500	+ $2,000
	50 or over catch-up	*Add $7,500*	*Add $6,500*	*+ $1,000*
Traditional IRA	**Annual Contribution**	$6,500	$6,000	+ $500
	50 or over catch-up	*Add $1,000*	*Add $1,000*	*No Change*
AGI Deduction Phaseouts:	Single; Head of Household	73,000 - 83,000	68,000 - 78,000	+ $5,000
	Joint nonparticipating spouse	218,000 - 228,000	204,000 - 214,000	+ $14,000
	Joint participating spouse	116,000 - 136,000	109,000 - 129,000	+ $7,000
	Married Filing Separately (any spouse participating)	0 - 10,000	0 - 10,000	No Change
Roth IRA	**Annual Contribution**	$6,500	$6,000	+ $500
	50 or over catch-up	*Add $1,000*	*Add $1,000*	*No Change*
Contribution Eligibility	Single; Head of Household	138,000 - 153,000	129,000 - 144,000	+ $9,000
	Married Filing Jointly	218,000 - 228,000	204,000 - 206,000	+ $14,000
	Married Filing Separately	0 - 10,000	0 - 10,000	No Change
Rollover to Roth Eligibility	Joint, Single, or Head of Household	No AGI Limit	No AGI Limit	No AGI Limit
	Married Filing Separately	Allowed / No AGI Limit	Allowed / No AGI Limit	Allowed / No AGI Limit

What you can do

- Look for your retirement savings plan from the table and note the annual savings limit of the plan. If you are 50 years or older, add the catch-up amount to your potential savings total.
- Then make adjustments to your employer-provided retirement savings plan as soon as possible in 2023 to adjust your contribution amount.

- Double check to ensure you are taking full advantage of any employee matching contributions into your account.
- Use this time to review and re-balance your investment choices as appropriate for your situation.
- Set up new accounts for a spouse and/or dependents. Enable them to take advantage of the higher limits, too.
- Consider IRAs. Many employees maintain employer-provided plans without realizing they could also establish a traditional or Roth IRA. Use this time to review your situation and see if these additional accounts might benefit you or someone else in your family.
- Review contributions to other tax-advantaged plans, including flexible spending accounts (FSAs) and health savings accounts (HSAs).

The best way to take advantage of increases in annual contribution limits is to start early in the year. The sooner, the better.

Correcting Common Financial Mistakes

You’re working at the office, getting stuff done around the house, or hanging out with family when — wham! — a phone call, email or text alerts you that something happened with your finances. When a not-so-nice financial event hits, don’t let it take you down. Here are some common miscues and steps to remedy each situation:

- **An overdrawn bank account.** First, stop using the account to avoid additional overdraft fees. Next, manually balance your account by reviewing all posted transactions. Look for unexpected items and fraudulent activity. Then call your bank to explain the situation and ask that all fees be refunded. Banks are not obligated to refund fees, but sometimes they will. The next steps vary based on the reason for the overdraft, but ultimately your goal is to bring your account back to a positive balance as soon as possible.
- **A missed credit card payment.** Make a payment as soon as you realize you missed it. If possible, consider paying off the entire outstanding balance because interest will be assessed on old AND current charges. Then call the credit card company to get them to refund the late fee and interest charges. The customer service representative will look at your account, see the payments, and be more willing to do as you request. As long as you aren't habitually late with payments, you can usually get the fees eliminated or reduced.
- **A tax return that didn't get filed.** Gather all your tax documents as soon as possible, and file the tax return even if you can't pay the taxes owed. This will stop your account from gathering additional penalties. You can then work with the IRS if necessary on a payment plan. The sooner you file, the sooner the money will be in your bank account if you're due a refund. If you wait too long (three years or more), any potential refunds will be gone forever.

- **Losing a wallet or a purse.** Start by calling all of your bank, debit and credit card companies. Set up fraud alerts with the major credit reporting companies and get a new driver's license. Then file a report with the police. Visit identitytheft.gov and review additional steps and procedures to protect yourself.
- **A missed estimated tax payment.** Estimated payments are due in April, June, September and January each year. If you are required to make estimated payments and miss a due date, don't simply wait until the next due date. Pay it as soon as possible to avoid further penalties. If you have a legitimate reason for missing the payment, such as a casualty or disaster loss, you might be able to reduce or even eliminate your penalty.

Remember that mistakes happen. When they do, stay calm and walk through correcting the situation as soon as possible.

Tips to Get Your Finances in Tip-Top Shape

Here are some tips to get your finances in tip-top shape for 2023.

- **Know your net worth.** The first step to improving your finances in 2023 is to create a snapshot of your current financial situation. So note all your assets, then subtract all your liabilities (what you owe others) to calculate your net worth. When done on a regular basis, you will be able to evaluate changes to your financial status and identify steps to reach your financial goals.
- **Plan for hardships.** If the pandemic has taught us anything, it's to plan for the unexpected. Now is the time to prepare by building an emergency fund that covers six or more months of expenses.
- **Prepare for a lower refund.** The 2021 tax year saw increases to the child tax credit and the dependent care credit, resulting in a big jump in tax refunds for many taxpayers. These changes, however, were not extended to 2022. If you plan to take advantage of either of these two credits on your 2022 tax return, be prepared for a possible decrease in your refund.
- **Create a debt repayment plan.** Design a plan to pay off your existing debts and try to avoid taking on any new debt. Pay special attention to credit card debt, as inflation is vastly increasing the cost of this debt every month! Also consider whether consolidating your debt is a good option for you.
- **Save for retirement.** Plan for your future self by building your retirement fund. In 2023 you can contribute up to $22,500 in your 401(k), plus another $7,500 if you're 50 or older. Keep in mind your company may provide matching contributions up to a stated percentage of compensation. And you may be able to supplement this account with contributions to IRAs and/or other qualified plans.

- **Review and re-balance your portfolio.** Review your investments periodically and reallocate funds to reflect your main objectives, risk tolerance, and other personal preferences. This will put you in a better position to handle the ups and downs of the markets.
- **Set a date to review your estate.** Review your estate and legal documents at least once a year, in addition to whenever you experience a significant change in your life. Now is a good time to review your will, trust documents, beneficiary designations, powers of attorney, healthcare directives, and other estate- and legal-related documents.

Keys to Keeping Great Business Records

Your bookkeeping system is the financial heart and lifeblood of your business. When set up and operating properly, your books help you make smart decisions and seamlessly turn your financial data into useful information. Here are four key characteristics to building and maintaining a healthy bookkeeping system:

- **Select the proper accounting method.** There are two different methods for recording transactions: cash-basis and accrual-basis. In general, the cash-basis method records a transaction when a payment is made, while the accrual-basis method books the transaction upon delivery of the good or service. Cash-basis is easier to track and a useful option for smaller businesses and sole-proprietors. Larger businesses who buy from vendors on account (accounts payable) generally use accrual-basis accounting.Selecting the proper method affects any related financial transactions and how your financial statements are displayed. A correct approach will also include consideration of outside factors, including IRS rules (businesses with more than $25 million in gross receipts must use accrual-basis), bank covenants, and industry standards. Once a choice is made, it can be changed but it must be properly reported to the IRS.
- **Create an account structure that fits the company.** Every business has a chart of accounts included in their bookkeeping system. These accounts sort the business's transaction data into six meaningful groups. They are assets, liabilities, equity, income, cost of goods sold and other expenses. Each group will often have numerous accounts and sub-accounts associated with them.Having the right mix of accounts, created and grouped in an organized fashion, will help you properly classify transactions and prepare usable financial statements. The proper account structure for your company will mesh with your specific information needs.
- **Enter accurate and timely transactions.** The value your data provides is dependent on each transaction being recorded correctly and on time. Entering transactions in the wrong account can cause major issues down the road. Financial reporting that is delayed can hide problems that need immediate attention. Some transactions are relatively straightforward, and some are more complex (like payroll, accruals and deferrals).It's important to have someone

who understands both your business and the accounting rules to enter your transactions in a timely fashion. In addition, a good month-end close process that involves reviewing each account will help you identify and fix mistakes from the initial entries.

- **Establish financial statements for decision-making.** The main financial statements are the income statement (income - expenses = gross profit), the balance sheet (assets - liabilities = equity) and statement of cash flow. Each statement has a specific purpose:
  - ***Income statement.*** The income statement shows company performance for a select period of time, typically monthly with a full-year summary. At the end of each year the income statement restarts.
  - ***Balance sheet.*** The balance sheet displays a company's overall health on a specific date. It is perpetual. This means it doesn't end until the business is closed or sold. It includes one line that summarizes the current year and prior year results from the income statement.
  - ***Statement of cash flow.*** This statement summarizes the inflows and outflows of cash. It ensures you know whether you have enough cash and the pattern of your cash position over time.

If properly executed, your bookkeeping system will create accurate financial statements that can be used to make key financial decisions. Feel free to call with any questions or to discuss bookkeeping solutions for your business.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.