

# CLIENT UPDATE

PRACTICAL TAX & FINANCIAL ADVICE

## Jumpstart your savings with these 3 ideas

While U.S. savings habits are improving, nearly 50% of Americans have no more than \$500 available to them in the event of an emergency. If you want to ramp up your savings, every little bit helps. Consider these 3 ideas to jumpstart your savings and start building wealth.

- 1 Create a budget.** Track your expenses for one month to discover how much you really spend. Be sure to track everything, including food, utilities, household items and debt payments. Take your total expenses and multiply it by 6. This is the amount of money to aim for saving in your emergency fund.
- 2 Make household debt your enemy.** If you're juggling credit card, vehicle and mortgage payments, your savings accounts may be starved. And without enough cash to cover emergencies, many people resort to credit cards and lines of credit to cover unforeseen expenses. So the debt cycle continues. Since you now have a budget, you can see exactly how much debt you have to pay off.
- 3 Plan for emergencies.** With your current level of income, calculate how long it will take to pay off all your debt, then build up your 6-month emergency fund. Depending on your financial goals, consider whether it makes sense to start a side gig, or continue upgrading your current skillset to better your income potential.



### How to stay on track

- ▶ **Treat your savings like a monthly bill.** Once you have an emergency fund, treat your savings as your most important monthly bill. Write a check to your savings account first, or have money automatically deducted from your checking account or paycheck and transferred to your savings account.
- ▶ **Contribute to retirement accounts.** Tax-deferred retirement accounts offer a smart way to save money for retirement. If your employer offers a 401(k) or SIMPLE retirement plan, contribute as much as you can. If your employer doesn't offer a plan, consider opening an individual retirement account (IRA). The money you contribute to a retirement account can reduce your taxable income and grow tax-free until withdrawn.
- ▶ **Control your spending.** When it comes to saving, think control. For example, control the use of your credit cards. The amount you pay each month in finance charges could go towards savings instead. Also control the use of your ATM card. Get in the habit of giving yourself a regular cash allowance, and try to live with it. ♦

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S P R I N G 2 0 2 3

## New tax rules mean changes for retirement accounts

The SECURE Act 2.0, passed by Congress in late 2022, features numerous ways for you to stash more money away in your tax advantaged retirement accounts. Here are several of the bill's provisions and what they mean for you.

### Money can continue to grow tax deferred

If you turn 72 in 2023 or later, you can keep money in a tax-deferred IRA or 401(k) for another 12 months to help the account continue growing before starting to withdraw funds. This retirement benefit is now available thanks to the required minimum distribution age being raised from age 72 to age 73. The age will increase again from 73 to 75 in 2033.

**Action:** Review your retirement account distribution needs and use this extra time to help make your distributions more tax efficient. For example, if you must earn an additional \$10,000 before you hit the next highest tax bracket, consider pulling more taxable income out of your retirement account to take advantage of this lower rate. Or use the extra time to consider converting some funds to a Roth IRA.

### Watch out for auto enrollment

The government wants you to save for retirement, so the new law allows

businesses to automatically transfer a greater portion of your paycheck into their retirement plan. The maximum contribution that can now be automatically deferred into your employer's 401(k) plan increases from 10% to 15%.

**Action:** While saving more for retirement is a great idea, this automatic participation does not account for your particular situation. Be aware of this law and independently determine what you can afford to put towards retirement. Make any adjustments if necessary. Remember, you also need to build an emergency fund and pay your bills!

### Take advantage of higher catch-up limits

Starting in 2024, the \$1,000 catch-up contribution for IRAs will receive an annual cost-of-living adjustment in increments of \$100, while the \$7,500 catch-up contribution for 401(k)s will increase to at least \$10,000. This higher 401(k) catch-up limit will also be indexed for inflation starting in 2025.

**Action:** Review the annual savings limit for your retirement savings account, including the catch-up amount if you are 50 years or older. Then make adjustments to your retirement savings plan as soon as possible to take advantage of higher savings limits. ♦

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### Use of retirement accounts among working-age people

IRAs	401(k), 403(b)	Defined-benefit
18.2%	34.6%	13.5%

Source: U.S. Census Bureau, 2021 Survey of Income and Program Participation

### TIPS TO BOOST YOUR RETIREMENT SAVINGS

- 1 Make saving automatic every month
- 2 Meet your employer's match
- 3 If possible, contribute to BOTH workplace plan and an IRA
- 4 Review child and spousal retirement account options



# Keys to success as an independent contractor

The number of independent workers continues to soar in the United States. According to MBO Partners, there were 64.6 million independent workers in 2022, an increase of 26% from 2021. The number of full-time independent workers increased to 21.6 million, up from 15.3 million in 2019.

Succeeding as an independent contractor, however, can be challenging because it requires understanding a different set of success factors versus being a full-time employee. Here are some tips on developing your skill set as an independent contractor and where to turn to if you need help.

## Contract for companies that pay quickly

The time required for companies to pay its bills to contract workers varies from business to business. Investigate a company's policy for paying its contract workers to make sure it's what you're expecting. Remember, cash is king!

## Market your services by creating an online portfolio

If being a contract worker is your full-time job, you'll always need to be looking for your next gig. One great way to market yourself to prospective businesses is to create an

online portfolio that showcases your work. You can choose to build a website using a do-it-yourself service or hire a developer to create a custom website.

## Create a budget

As a full-time employee, you know the exact date you'll receive your paycheck and usually the exact dollar amount. As an independent contractor, however, you could earn a bunch of money in one month and hardly any money the following month. Prepare a financial budget so you can use income earned during your good months to cover costs during low income months.

## Stay one step ahead of the IRS

Paying taxes is now your responsibility. Being an independent contractor requires more knowledge about how to meet your tax obligations, so ask for professional help. You can also find more information by visiting the IRS Gig Economy Tax Center.

## Get advice from others

Working primarily by yourself can leave you isolated from fellow workers. Join a local group of self-employed workers that meets on a regular basis to network and learn what other workers are doing to be successful.

Remember that you are not alone. The complex nature of tax obligations for contractors can be navigated with professional help. ♦

# IRS Update

## Taxpayers should revisit estimated tax payments, IRS recommends

Taxpayers who earn or receive income that is not subject to tax withholding such as self-employed people or independent contractors should pay their taxes quarterly to the IRS to avoid a possible underpayment penalty.

In addition, people who owed tax when they filed their current year tax return often find that they owe once again when they file the following year. Taxpayers in this situation normally include:

- Those who itemized in the past but are now taking the standard deduction
- Two wage-earner households
- Employees with non-wage sources of income such as dividends
- Those with complex tax situations
- Those who fail to increase their tax withholding

## Interest rates increase for first quarter of 2023

Interest rates for the first quarter in 2023 will increase compared to last quarter. These rates include: 7% for overpayments (6% for corporations); 4.5% for the portion of a corporate overpayment over \$10,000; 7% for underpayments and 9% for large corporation underpayments. ♦

# Tax Calendar

## April 18

- 2022 individual income tax returns are due.
- First installment of 2023 individual estimated tax is due.

## June 15

- Second installment of 2023 individual estimated tax is due.



# Fixing common financial slip-ups

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. If everything looks ok, transfer money to cover the outstanding items, then call your bank. Explain the situation and ask that all fees be refunded. Banks are not obligated to refund fees, but sometimes they will.

## 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.

## 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](https://www.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. ♦

# Keep your finances in tip-top shape

Here are some tips to help:



## Know your net worth

Write down all your assets, then subtract all your liabilities, to calculate your net worth. Knowing this number can help you build a road map towards wealth and financial independence.



## Plan for hardships

Plan for the unexpected by building an emergency fund that covers six or more months of expenses.



## Pay off your debt

Design a plan to pay off your existing debts. Pay special attention to credit card debt, as inflation is vastly increasing the cost of this debt every month!



## Save for retirement

Plan for your future self by building your retirement fund. Keep in mind your company may provide matching contributions up to a stated percentage of compensation.



## Review your estate

Review all documents associated with your estate at least once a year, including your will, trust document, beneficiary designation, powers of attorney, and healthcare directives.

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