

MOLDENHAUER ASSOCIATES

OCTOBER NEWSLETTER

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We are making progress on most issues facing the business. Business has continued to be good; clients are getting back on the regular service meet-up schedule, firm events have been well attended. We had a new advisor trainee join us in September; his name is Keith Whitcomb. We'll tell you more about him in future newsletters.

The new conference room chairs enhance the comfort you'll notice at client sessions. Added changes will occur soon.

As we approach the end of September, we are seeing some of the market volatility that has been expected. There are many factors that are affecting our world. When these are listed and added up, it becomes obvious why we are seeing what has been causing this.

It is times like these that the basics of sound investment management become more important. If you are a client or potentially a prospective client, please take the time to sit down with your advisor soon to review your program.

As many readers know, Kathy and I are back in South Carolina. The fishing has been great, and I was considering putting a picture of a large Redfish, I recently caught, in this letter. I got out voted because of an early morning visit by a young fox. The picture was taken when we had a visit on the back porch on September 23, 2021.

I've included an article related to some of the major upcoming tax changes that will hurt the vast majority of taxpayers despite what you may be hearing or reading. Remember the old true adage: "There is no free lunch". When the government gives with one hand, it takes with the other.



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THE WALL OF WORRY

You've got plenty of choices these days.

Have you ever heard the Wall Street expression, "markets climb a wall of worry?"

It's the idea that financial markets are constantly on edge. Traders fret about how long a market rally can continue before it runs into trouble. Worry shifts from one news event to the next as traders attempt to build a case whether it's time to go "risk-off" with a portfolio strategy.¹

If you're looking for something to worry about, you've got plenty of choices these days: the Delta variant, inflation, jobs, vaccines, Fed policy, taxes, unemployment, and so on. There's no shortage of headlines to help boost investors up the wall.

But by early August, the Standard & Poor's 500 index notched its 42nd record closing of 2021. And while past performance is no guarantee of future results, it's important to keep in mind the S&P 500 has moved higher despite the wide range of economic and financial concerns.²

Our role as financial professionals is to help guide and equip clients with the tools they need regardless of what news "worries" the financial markets. We work with professionals who monitor the economy and interpret how the recent news may influence the overall trends.

If you find yourself worried about the financial markets, please reach out. We'd welcome the chance to hear your thoughts.

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Investing involves risks, and investment decisions should be based on your own goals, time horizon, and risk tolerance. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost. The S&P 500 Composite Index is an unmanaged group of securities considered to be representative of the stock market in general. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index.

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Citations

1. Investopedia.com, December 4, 2020
2. MarketWatch, August 3, 2021

COMING TAX CHANGES

We were promised that no taxpayer earning under \$400,000 a year would see any tax increase. If the fact that inflation has already had a serious effect on almost every American was not bad enough, we will be seeing more tax changes soon. These changes will affect everyone.

A short list of proposed changes include:

1. Capital Gains rates will be increased. The good news is they will not increase to ordinary income rates. It appears the rate will increase by 25%.
2. The Estate Tax exemption will be cut in half. Grantor trusts will be severely restricted. Valuation discounts which have been of great value to many estate plans will be restricted.
3. Heirs who inherit appreciated assets will have that appreciation added to the tax base will still not trigger a gain (unless there is appreciation post date of death before the asset is sold).
4. High income people will be paying an added 3% tax surcharge, which means they will, in fact, have a maximum Federal rate of 42.6%. Add this to increasing State and Municipal taxes, high earners may have a total tax rate of approximately 60%.
5. Stretch IRAs inherited from a decedent must be fully paid out in 10 years following the death of the plan owner.
6. The deduction for qualified business income will be severely reduced under Section 199A.
7. There are a couple changes that may have a positive effect on the estates of working farms. The major benefit has to do with best use valuation. If you are a farm owner, be sure to discuss this with a trusted advisor.
8. Grantor Trusts -- There are several new restrictions. If you are considering adding a simple trust to your estate plan, I urge you to act soon.

Let me end this brief here. There are more changes that could be draconian. Procrastination will not work. As the changes formulate and crystalize, I'll add to the information I've listed above.

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ANNUAL FINANCIAL TO-DO LIST

Things you can do for your future as the year unfolds.

What financial, business, or life priorities do you need to address for the coming year? Now is an excellent time to think about the investing, saving, or budgeting methods you could employ toward specific objectives, from building your retirement fund to managing your taxes. You have plenty of choices. Here are a few ideas to consider:

Can you contribute more to your retirement plans this year?

In 2022, the contribution limit for a Roth or traditional individual retirement account (IRA) is expected to remain at \$6,000 (\$7,000 for those making "catch-up" contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA. With a traditional IRA, you can contribute if you (or your spouse if filing jointly) have taxable compensation, but income limits are one factor in determining whether the contribution is tax-deductible.¹

Keep in mind, this article is for informational purposes only and not a replacement for real-life advice. Also, tax rules are constantly changing, and there is no guarantee that the tax landscape will remain the same in years ahead.

Once you reach age 72, you must begin taking required minimum distributions from a traditional Individual Retirement Account in most circumstances. Withdrawals from Traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

To qualify for the tax-free and penalty-free withdrawal of earnings, Roth 401(k) distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawal can also be taken under certain other circumstances, such as the owner's death. Employer match is pretax and not distributed tax-free during retirement.

Make a charitable gift.

You can claim the deduction on your tax return, provided you follow the Internal Revenue Service guidelines and itemize your deductions with Schedule A. The paper trail can be important here. If you give cash, you should consider documenting it. Some contributions can be demonstrated by a bank record, payroll deduction record, credit card statement, or written communication from the charity with the date and amount. Incidentally, the IRS does not equate a pledge with a donation. If you pledge \$2,000 to a charity this year but only end up gifting \$500, you can only deduct \$500.²

Make certain to consult your tax, legal, or accounting professional before modifying your record-keeping approach or your strategy for making charitable gifts.

See if you can take a home office deduction for your small business.

If you are a small-business owner, you may want to investigate this. You may be able to write off expenses linked to the portion of your home used to conduct your business. Using your home office as a business expense involves a complex set of tax rules and regulations. Before moving forward, consider working with a professional who is familiar with the tax rules as they relate to home-based businesses.³

Open an HSA.

A Health Savings Account (HSA) works a bit like your workplace retirement account. There are also some HSA rules and limitations to consider. You are limited to a \$3,650 contribution for 2022 if you are single; \$7,300 if you have a spouse or family. Those limits jump by a \$1,000 "catch-up" limit for each person in the household over age 55.⁴

If you spend your HSA funds for non-medical expenses before age 65, you may be required to pay ordinary income tax as well as a 20% penalty. After age 65, you may be required to pay ordinary income taxes on HSA funds used for nonmedical expenses. HSA contributions are exempt from federal income tax; however, they are not exempt from state taxes in certain states.

Pay attention to asset location.

Tax-efficient asset location is one factor that can be considered when creating an investment strategy.

Review your withholding status.

Should it be adjusted due to any of the following factors?

- You tend to pay the federal or state government at the end of each year.
- You tend to get a federal tax refund each year.
- You recently married or divorced.
- You have a new job, and your earnings have been adjusted.

Consider consulting your tax, human resources, or accounting professional before modifying your withholding status.

Did you get married in 2021?

If so, it may be an excellent time to review the beneficiaries of your retirement accounts and other assets. The same goes for your insurance coverage. If you are preparing to have a new last name in 2022, you may want to get a new Social Security card. Additionally, retirement accounts may need to be revised or adjusted?

Are you coming home from active duty?

If so, go ahead and check on the status of your credit and any tax and legal proceedings that might have been preempted by your orders.

Consider the tax impact of any upcoming transactions.

Are you preparing to sell any real estate this year? Are you starting a business? Might any commissions or bonuses come your way in 2022? Do you anticipate selling an investment that is held outside of a tax-deferred account?

If you are retired and in your seventies, remember your RMDs.

In other words, Required Minimum Distributions (RMDs) from retirement accounts. In most circumstances, once you reach age 72, you must begin taking RMDs from most types of these accounts.⁵

Vow to focus on your overall health and practice sound financial habits in 2022. And don't be afraid to ask for help from professionals who understand your individual situation.

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Citations

1. thefinancebuff.com, August 11, 2021
2. irs.gov, January 22, 2021
3. nerdwallet.com, July 31, 2020
4. irs.gov, September 8, 2021
5. irs.gov, May 3, 2021

THE NEED FOR POWER OF ATTORNEY

POAs and other advanced directives are becoming more important.

The point of the POA.

A power of attorney (POA) is a legal instrument that delegates an individual's legal authority to another person. If an individual is incapacitated, the POA assigns a trusted party to make decisions on his or her behalf.

There are *nondurable*, *springing*, and *durable* powers of attorney. A nondurable power of attorney often comes into play in real estate transactions, or when someone elects to delegate their financial affairs to an assignee during an extended absence. A springing power of attorney "springs" into effect when a specific event occurs (usually an illness or disability affecting an individual). A "durable" power of attorney allows an assignee, or agent, to act on behalf of a second party, or principal, even after the principal is not mentally competent

or physically able to make decisions. Once a principal signs, or executes, a durable power of attorney, it may be used immediately, until it is either revoked by the principal or the principal dies.¹

Keep in mind this article is for informational purposes only.

It's not a replacement for real-life advice. Make sure to consult your legal professional so you can better understand what type of powers of attorney is a best fit for your situation.

What the POA allows in financial terms.

Financially, a Power of Attorney is a tremendously useful instrument. An agent can pay bills, write checks, make investment decisions, buy or sell real estate or other hard assets, sign contracts, file taxes, and even arrange the distribution of retirement benefits.

Advanced healthcare directives: HCPOAs and Living Wills.

Some illnesses can eventually rob people of the ability to articulate their wishes, and this is a major reason why people opt for a Health Care Power of Attorney (HCPOA) or a living will. There are differences between the two.

A Health Care Power of Attorney (also called a "healthcare proxy") allows an agent to make medical decisions for a principal, should they become physically or mentally incapacitated. A living will gives an assignee similar powers of decision, but this advanced directive only applies when someone faces certain death. The assignee has the authority to carry out the wishes of the incapacitated party.

Would you like to learn more?

It may be time to meet with an attorney who specializes in these issues. You can find one with the help of an insurance or financial professional who has assisted families with legacy planning.

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Citations

1. AgingCare.com, August 23, 2021

UPCOMING EVENTS:

Our upcoming seminars are at:

SEMINARS ARE TEMPORARILY ON HOLD.

Please visit our website at www.moldenhauerassociates.com for updates.

We encourage clients who live in the area to consider attending with a friend or two. We find that the best way to introduce new potential clients to our firm is when an existing client brings a friend to one of our seminars. As you know, these are informational/educational events. We are not there to convince people that we are the only firm to consider working with. Rather, we do believe that our firm offers a quality opportunity for those people looking for a new advisor relationship. Please consider attending an upcoming seminar in your neighborhood with a friend. You may register for a seminar by calling 716-662-4361 or through our website at www.moldenhauerassociates.com.

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