



9.5%

Percentage of taxpayers who itemize deductions on their 2020 returns. By comparison, 30.6% itemized on their 2017 returns, the last year before the Tax Cuts and Jobs Act almost doubled the standard deduction and enacted other changes that made it less valuable to itemize.

Source: *Internal Revenue Service, 2022*

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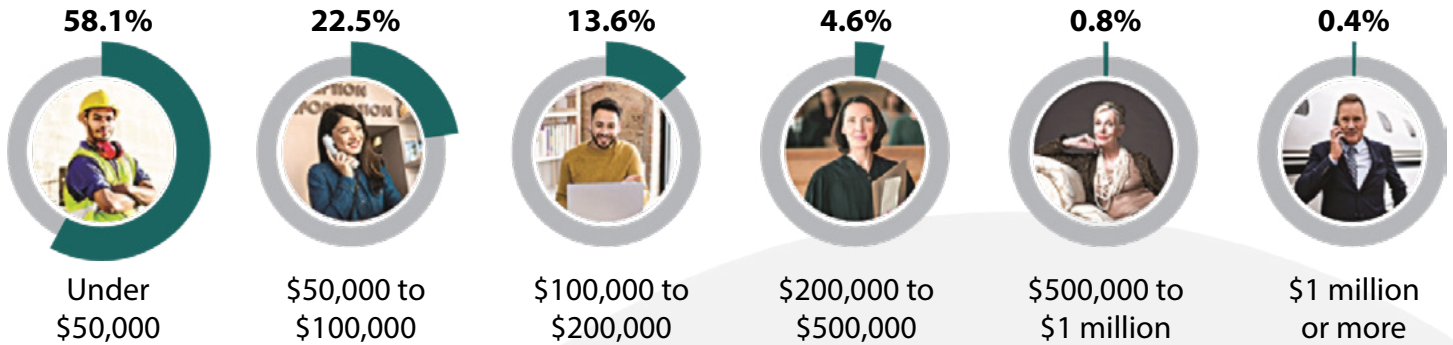
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WHERE DOES YOUR INCOME FIT?

The IRS processed more than 164 million individual income tax returns for tax year 2020 (most recent full-year data). Almost three out of five returns showed an adjusted gross income (AGI) under \$50,000, while a little over 1% showed an AGI of \$500,000 or more.

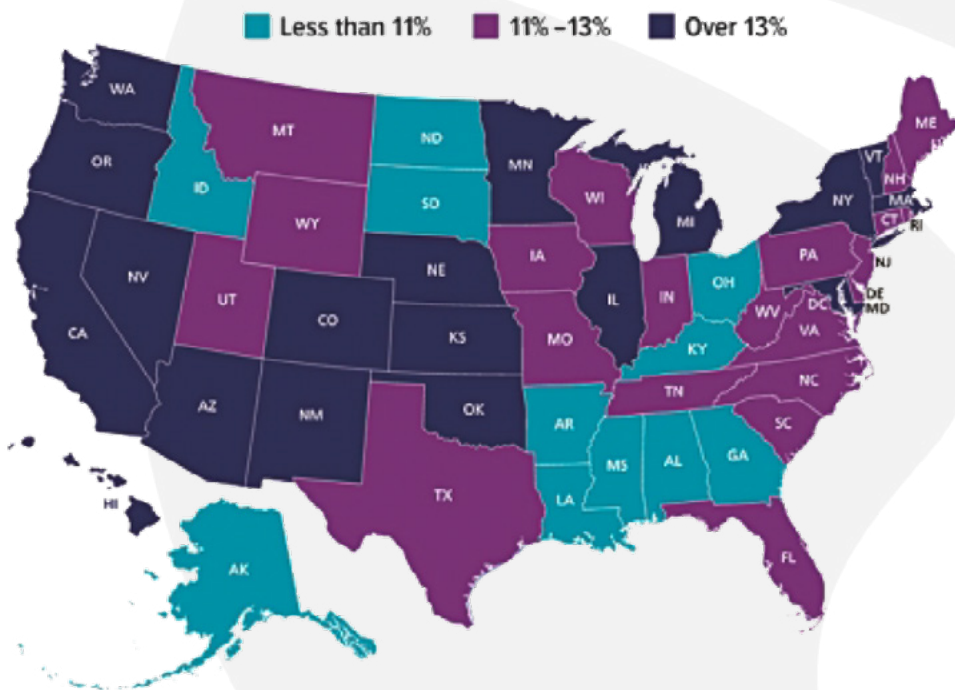


Source: Internal Revenue Service, 2022

CHILD-CARE AFFORDABILITY IS ALL OVER THE MAP

The typical fees charged for child care vary widely by state. The U.S. Department of Health and Human Services considers child-care costs to be affordable when they are at or below 7% of annual household income — but many families face costs far above that threshold.

The annual price of center-based care as a percentage of median income, by state



\$310,605

Estimated cost for a middle-class family to raise a child born in 2015 through age 17. This figure is based on the U.S. Department of Agriculture's 2017 projection of \$284,594, which was adjusted upward to account for unexpectedly high inflation in 2022.

Source: *The Brookings Institute, 2022*

Source: Child Care Aware®, 2022 (data for 2021; CO data for 2020)

TIME FOR A SPRING CLEANUP: ORGANIZING YOUR FINANCIAL RECORDS

The arrival of spring is always a good time to dust off the cobwebs that have built up in your home during the winter. It's also a good time to clean out and organize your financial records so you can quickly locate something if you need it.

Keep Only What You Need

If you keep paperwork because you "might need it someday," your home office and file cabinets are likely overflowing and cluttered with nonessential documents. One key to organizing your financial records is to keep only what you absolutely need for as long as you need it.

Tax records. Keep all personal tax records for three years after filing your return or two years after the taxes were paid, whichever is later. (Different rules apply to business taxes.) If you underreported gross income by more than 25% (not a wise decision), keep the records for six years, and for seven years if you claimed a deduction for worthless securities or bad debt. It might be helpful to keep your actual tax returns, W-2 forms, and other income statements until you begin receiving Social Security benefits.

Financial statements. You generally have 60 days to dispute charges with banks and credit cards, so you could discard statements after two months. If you receive an annual statement, throw out monthly statements once you receive the annual statement. If your statements include tax information (e.g., you use credit-card statements to track deductions), follow the guidelines for tax records.

Retirement account statements. Keep quarterly statements until you receive your annual statement; keep annual statements until you close the account. Keep records of nondeductible IRA contributions indefinitely to prove you paid taxes on the funds.

Real estate and investment records. Keep at least until you sell the asset. If the sale is reported on your tax return, follow the rules for tax records. Utility bills can be discarded once the next bill is received showing the previous paid bill, unless you deduct utilities, such as for a home office.

Loan documents. Keep documents and proof of payment until the loan is paid off. After that, keep proof of final payment.

Insurance policies. Keep policy and payment documents as long as the policy is in force.

Auto records. Keep registration and title information until the car is sold. If you deduct auto expenses, keep mileage logs and receipts with your tax records. You might keep maintenance records for reference and to document services to a new buyer.

Medical records. Keep records indefinitely for surgeries, major illnesses, lab tests, and vaccinations. Keep payment records until you have proof of a zero balance. If you deduct medical expenses, keep receipts with your tax records.

These are general guidelines, and your personal circumstances may warrant keeping these documents for shorter or longer periods of time.

Personal Document Locator

A personal document locator is a detailed list of your personal and financial information that can assist others in the event of your death or disability. Typically, a personal document locator will include the following:



Personal information
(e.g., date of birth,
Social Security number)



Names and phone numbers of personal contacts



Online accounts, with usernames and passwords



Names and phone numbers of professional service providers (e.g., banker, physician, attorney, tax preparer, financial professional)



Location of important legal and financial documents

Securely Store Your Records

You can choose to keep hard copies of your financial records or store them digitally. You usually do not need to keep hard copies of documents and records that can be found online or duplicated elsewhere. Important documents such as birth certificates and other proof of identity should be stored in a safe place, such as a fire-resistant file cabinet or safe-deposit box. You can save or scan other documents on your computer, or store them on a portable drive, or use a cloud storage service that encrypts your uploaded information and stores it remotely.

An easy way to prevent documents from piling up is to remember the phrase “out with the old, in with the new.” For example, if you still receive paper copies of financial records, discard your old records as soon as you receive the new ones (using the aforementioned guidelines). Make sure to dispose of them properly by shredding documents that contain sensitive personal information, Social Security numbers, or financial account numbers. Finally, review your records regularly to make sure that your filing system remains organized.

COULD YOUR LIVING SITUATION CHANGE AS YOU GROW OLDER?

Recent research from the U.S. Department of Health and Human Services suggests that most Americans turning age 65 will need long-term care support during their lifetimes.¹

1) U.S. Department of Health and Human Services, 2021

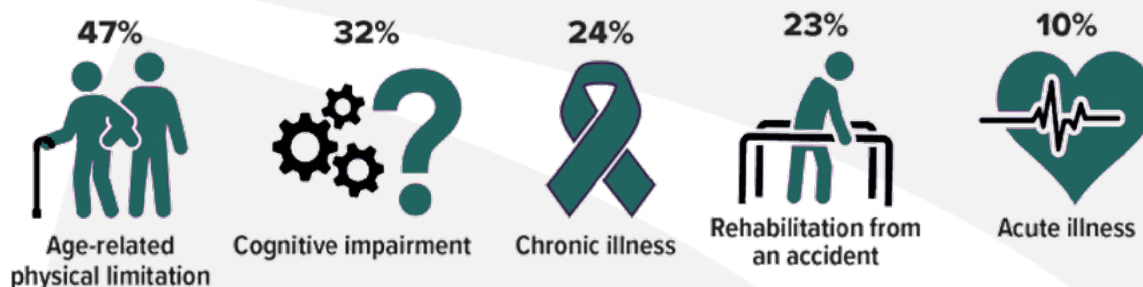
If the need arises, how will you handle potential long-term care for yourself or a loved one? Planning for the consequences of aging in general, and long-term care in particular, will depend on your preferences and circumstances. A long-term care plan should account for the different types of care you may need and the different settings in which you might receive that care. These are the most common options.

Your Home

Given a choice, you might prefer to receive long-term care support in your own home. Family caregivers, friends, or trained homemakers could provide assistance with everyday tasks, and professionals such as nurses and home health aides could provide home health care. In addition, a variety of community support services may be available, including adult day-care centers and transportation services. In any case, receiving care at home offers a measure of independence in a familiar environment.

Reasons for Care

A 65-year-old has a nearly 70% chance of needing long-term care support and services at some point. The average length of long-term care in 2021 was 3.5 years, up from 3 years in 2018. People need care for a variety of reasons, but the most common is simply the physical limitations of aging.



Source: Genworth, 2021 (multiple responses allowed)

Community Care Retirement Communities (CCRCs)

Also known as life plan communities, CCRCs provide a range of services — from independent living to full-time skilled nursing care — all in the same location, allowing you to age in place. Most CCRCs combine housing options at one location and may include townhouses or cottages for independent living, assisted living apartments, and nursing home accommodations.

Assisted Living Facilities

If you want to remain independent but need some assistance with activities of daily living, you might choose to live in an assisted living facility. These home-like facilities offer housing, meals, and personal care services, but generally not medical or nursing services.

Nursing Homes

People who enter a nursing home usually have a disabling condition or cognitive disorder and can no longer take care of themselves. State-licensed nursing facilities offer more specialized skilled care, intermediate care, and custodial care. This is the most expensive way to receive long-term care.

Take some time to think about what the future might hold. Planning ahead can help ensure that you receive the type of care you need, in the setting that you prefer, as you grow older.

50 AND OLDER? HERE'S YOUR CHANCE TO CATCH UP ON RETIREMENT SAVING

If you are age 50 or older and still working, you have a valuable opportunity to super-charge your retirement savings while managing your income tax liability. Catch-up contributions offer the chance to invest amounts over and above the standard annual limits in IRAs and workplace retirement plans.

2023 Limits

In 2023, the IRA catch-up limit is an additional \$1,000 over the standard annual amount of \$6,500. Participants in 401(k), 403(b), and government 457(b) plans can contribute an extra \$7,500 over the standard limit of \$22,500. For SIMPLE plans, the catch-up amount is \$3,500 over the standard limit of \$15,500.¹

Tax Benefits

Contributions to traditional workplace plans are made on a pre-tax basis, which reduces the amount of income subject to current taxes. Contributions to traditional IRAs may be deductible, depending on certain circumstances.

If you are not covered by a retirement plan at work, your traditional IRA contributions are fully tax deductible. If you are covered by a workplace plan, you may deduct the full amount if your adjusted gross income is \$73,000 or less as a single taxpayer or \$116,000 or less if you're married and file jointly. If you are not covered by a workplace plan but your spouse is, you are eligible for a full deduction if you file jointly and your income is \$218,000 or less.²

Contributions to Roth accounts do not offer immediate tax benefits, but qualified distributions are tax-free at the federal, and possibly state, level. A qualified distribution is one made after the account has been held for five years and the account owner reaches age 59½, dies, or becomes disabled.

Distributions from traditional accounts prior to age 59½ and nonqualified distributions from Roth accounts are subject to ordinary income taxes and a 10% penalty, unless an exception applies.

Still Time for 2022 Contribution

If you qualify, you can make a deductible IRA contribution for 2022 up until the tax filing deadline on April 18, 2023. The total contribution limit for someone age 50 or older in 2022 is \$7,000. You can open a new IRA or invest in a current one, but be sure to specify the contribution is for the 2022 tax year. The income limits for a full deduction in 2022 are \$68,000 for single taxpayers, \$109,000 for married taxpayers filing jointly, and \$204,000 for taxpayers who aren't covered by a workplace plan but their spouse is.²

1) Participants in 403(b) and 457(b) plans may benefit from other catch-up contributions specific to each plan type. Participants in government 457(b) plans cannot combine age 50 catch-up contributions with other catch-up contributions. When calculating allowable annual amounts, contributions to all plans except 457(b)s must be aggregated.

2) Phaseout limits apply. Married couples filing separately cannot take a full deduction. You must have earned income at least equal to your IRA contribution. Talk to a tax professional.

BUSINESS OWNERS SHOULD PREPARE FOR STRONGER TAX ENFORCEMENT

The Inflation Reduction Act of 2022 is providing the IRS with an influx of about \$80 billion to modernize outdated technology and rebuild a depleted workforce, which is expected to improve enforcement to the tune of about \$200 billion over a decade. Treasury Secretary Janet Yellen directed the agency not to use additional resources to increase audit rates for taxpayers making under \$400,000 a year, but the tax returns of high-earning business owners are likely to face more scrutiny than they have in years past.¹

IRS audit rates for individual, partnership, and S corporation income tax returns have fallen since 2010, a trend that could reverse as the IRS ramps up enforcement. Higher audit rates won't appear overnight, but large investments to upgrade technology could eventually help the IRS develop more advanced enforcement methods.

With that in mind, here are some tips to help you avoid unwanted attention from the IRS.

Understand the process. Tax returns are randomly selected, which means you might be audited even if you do everything by the book. However, when your tax return is processed, a computer program screens for anomalies and compares deductions to those of taxpayers with similar incomes. Your return is more likely to be chosen if there's a higher chance that it would result in the collection of additional taxes, but an audit can also be triggered by a red flag on your return or a simple mistake that leads to additional questions. If selected for a correspondence audit, you may be asked to mail specific information to the IRS. A comprehensive field audit would be conducted at your home, place of business, or accountant's office.

Avoid common traps. Filing an incomplete tax return (with missing forms or schedules) and not making tax payments on time are surefire ways to attract unwanted attention from the IRS. Taking business deductions that are not in line with industry norms, not categorizing transactions consistently from year to year, having a high number of independent contractors relative to full-time employees, and reporting continuous losses are all situations that can look suspicious, even if they are valid.

Step up your record-keeping. Taxpayers are required to keep tax records for at least three years from the date the tax return was filed. Organizing and possibly digitizing your records could make it easier to respond to any requests for information that may come from the IRS — and not being able to provide a requested document could negatively impact your audit results.

A heightened focus on compliance means it may be more important than ever to consult an experienced tax professional for personalized guidance, especially if you receive any type of communication from the IRS.

1) U.S. Treasury Department, 2022

IMPORTANT DISCLOSURES

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