smartlife™

MONTHLY NEWSLETTER

CORBETT ROAD
WEALTH MANAGEMENT

November 2023

F-150

The Ford F-Series, including the F-150® pickup truck, topped the list of best-selling vehicles in the U.S. in both 2003 and 2023. In fact, Ford F-Series trucks have endured for the long haul, leading vehicle sales since 1982.

Source: *Ford Motor Company, 2023*

0.51%

Estimated reduction in the 2022 proforma operating earnings of S&P 500 companies that would have resulted from the net buyback tax had it been in effect.

Source: *S&P Dow Jones Indices, 2023*

WHAT'S INSIDE

THEN AND NOW

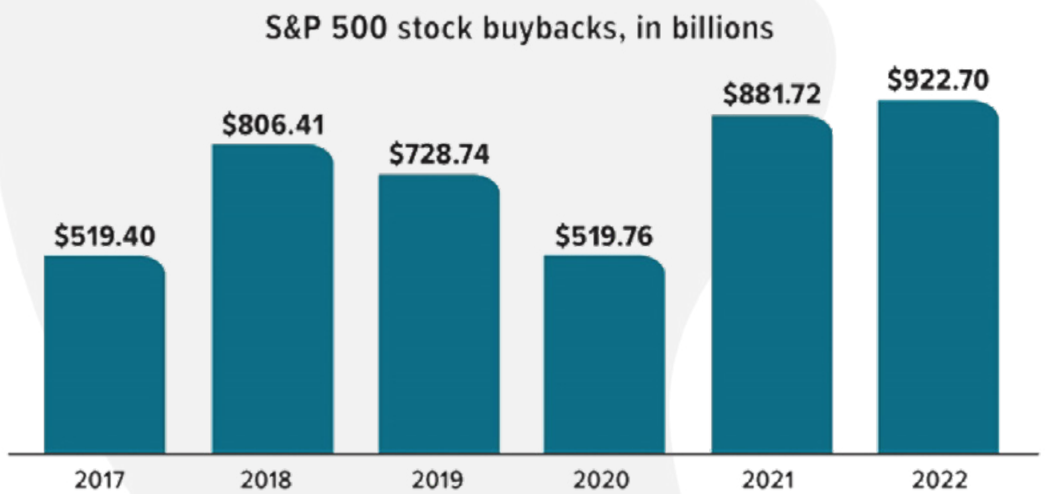
In 2003, the U.S. was emerging from the dot-com recession, unemployment rates were peaking during a jobless recovery, and online shopping was becoming more popular. Twenty years have passed, and here's how some things have changed — one pandemic and two recessions later.

	Average mortgage rate (30-year fixed)[1]	Unemployment rate[2]	E-commerce sales (percent of total retail)[3]	Personal saving rate (percent of disposable income)[4]	Average credit card interest rate[5]
2003	6.32%	6.1%	1.7%	6.1%	12.89%
2023	7.18%	3.8%	15.4%	3.5%	22.16%

Sources: *1) Freddie Mac, 2023 (August); 2) U.S. Bureau of Labor Statistics, 2023 (August); 3) U.S. Census Bureau, 2023 (Q2); 4) U.S. Bureau of Economic Analysis, 2023 (July); 5) Federal Reserve Board, 2023 (Q2)*

BUYBACKS AND CORPORATE TAXES

When shares of stock are repurchased by the issuing company, it reduces the number of outstanding shares and raises the earnings-per-share ratio, which can help boost the stock price. After a significant corporate tax cut was enacted at the end of 2017, S&P 500 stock buybacks surged — and a new record was set in 2022. It's yet to be seen how a 1% excise tax on net buybacks that started in 2023 will affect buyback activity going forward.



Source: *S&P Dow Jones Indices, 2023*

MUCH ADO ABOUT RMDS

The SECURE 2.0 Act, passed in late 2022, included numerous provisions affecting retirement savings plans, including some that impact required minimum distributions (RMDs). Here is a summary of several important changes, as well as a quick primer on how to calculate RMDs.

What Are RMDs?

Retirement savings accounts are a great way to grow your nest egg while deferring taxes. However, Uncle Sam generally won't let you avoid taxes indefinitely. RMDs are amounts that the federal government requires you to withdraw annually from most retirement accounts after you reach a certain age. Currently, RMDs are required from traditional IRAs, SEP and SIMPLE IRAs, and work-based plans such as 401(k), 403(b), and 457(b) accounts.

If you're still working when you reach RMD age, you may be able to delay RMDs from your current employer's plan until after you retire (as long as you don't own more than 5% of the company); however, you must still take RMDs from other applicable accounts.

While you can always withdraw more than the required minimum, if you withdraw less, you'll be subject to a federal penalty.

Four Key Changes

1. Perhaps the most notable change resulting from the SECURE 2.0 Act is the age at which RMDs must begin. Prior to 2020, the RMD age was 70½. After passage of the first SECURE Act in 2019, the age rose to 72 for those reaching age 70½ after December 31, 2019. Beginning in 2023, SECURE 2.0 raised the age to 73 for those reaching age 72 after December 31, 2022, and, in 2033, to 75 for those who reach age 73 after December 31, 2032.

When Must RMDs Begin?

Date of Birth	RMD Age
Before July 1, 1949	70½
July 1, 1949, through 1950	72
1951 through 1959	73
1960 or later	75

2. A second important change is the penalty for taking less than the total RMD amount in any given year. Prior to passage of SECURE 2.0, the penalty was 50% of the difference between the amount that should have been distributed and the amount actually withdrawn. The tax is now 25% of the difference and may be reduced further to 10% if the mistake is corrected in a timely manner (as defined by the IRS).

3. A primary benefit of Roth IRAs is that account owners (and typically their spouses) are not required to take RMDs from those accounts during their lifetimes, which can enhance estate-planning strategies. A provision in SECURE 2.0 brings work-based Roth accounts in line with Roth IRAs. Beginning in 2024, employer-sponsored Roth 401(k) accounts will no longer be subject to RMDs during the original account owner's lifetime. (Beneficiaries, however, must generally take RMDs after inheriting accounts.)
4. Similarly, a provision in SECURE 2.0 ensures that surviving spouses who are sole beneficiaries of a work-based account are treated the same as their IRA counterparts beginning in 2024. Specifically, surviving spouses who are sole beneficiaries and inherit a work-based account will be able to treat the account as their own. Spouses will then be able to use the favorable uniform lifetime table, rather than the single life table, to calculate RMDs. Spouses will also be able to delay taking distributions until they reach their RMD age or until the account owner would have reached RMD age.

How to Calculate RMDs

RMDs are calculated by dividing your account balance by a life expectancy factor specified in IRS tables (see IRS Publication 590-B). Generally, you would use the account balance as of the previous December 31 to determine the current year's RMD.

For example, say you reach age 73 in 2024 and have $300,000 in a traditional IRA on December 31, 2023. Using the IRS's Uniform Lifetime Table, your RMD for 2024 would be $11,321 ($300,000 ÷ 26.5).

The IRS allows you to delay your first RMD until April 1 of the year following the year in which it is required. So in the above example, you would be able to delay the $11,321 distribution until as late as April 1, 2025. However, you will not be allowed to delay your second RMD beyond December 31 of that same year — which means you would have to take two RMDs in 2025. This could have significant implications for your income tax obligation, so beware.

An RMD is calculated separately for each IRA you have; however, you can withdraw the total from any one or more IRAs. Similar rules apply to 403(b) accounts. With other work-based plans, an RMD is calculated for and paid from each plan separately.

For more information about RMDs, contact your tax or financial professional. There is no assurance that working with a financial professional will improve investment results.

YEAR-END 2023 TAX TIPS

Here are some things to consider as you weigh potential tax moves before the end of the year.

Set Aside Time to Plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

Defer Income to Next Year

Consider opportunities to defer income to 2024, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services in order to postpone payment of tax on the income until next year.

Accelerate Deductions

Look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as qualifying interest, state taxes, and medical expenses before the end of the year (instead of paying them in early 2024) could make a difference on your 2023 return.

Make Deductible Charitable Contributions

If you itemize deductions on your federal income tax return, you can generally deduct charitable contributions, but the deduction is limited to 50% (currently increased to 60% for cash contributions to public charities), 30%, or 20% of your adjusted gross income, depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.)

Increase Withholding

If it looks as though you're going to owe federal income tax for the year, consider increasing your withholding on Form W-4 for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck.

Save More for Retirement

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can help reduce your 2023 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2023, you can contribute up to $22,500 to a 401(k) plan ($30,000 if you're age 50 or older) and up to $6,500 to traditional and Roth IRAs combined ($7,500 if you're age 50 or older). The window to make 2023 contributions to an employer plan generally closes at the end of the year, while you have until April 15, 2024, to make 2023 IRA contributions. (Roth contributions are not deductible, but qualified Roth distributions are not taxable.)

Take Any Required Distributions

If you are age 73 or older, you generally must take required minimum distributions (RMDs) from your traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 25% of any amount that you failed to distribute as required (10% if corrected in a timely manner). Beneficiaries are generally required to take annual distributions from inherited retirement accounts (and under certain circumstances, a distribution of the entire account 10 years after certain events, such as the death of the IRA owner or the beneficiary); there are special rules for spouses.

Key Benefits of Year-End Tax Loss Harvesting

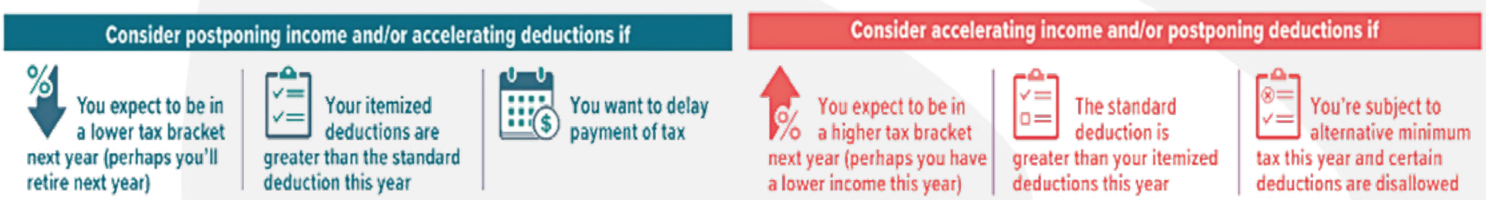
Tax-loss harvesting involves selling under-performing investments to create capital losses, which can offset current-year taxes or be carried forward. This process typically occurs at year-end when investors review their annual portfolio performance and the potential tax implications.

Tax-loss harvesting offers tax advantages for investors with significant capital gains or losses, but there are special considerations. The IRS created the wash sale rule to discourage investors from selling securities at a loss solely for tax deductions. The rule states that if you sell a security at a loss, you can't purchase the same or a "substantially identical" security within 30 days before or after the sale. Additionally, tax-loss harvesting is only applicable to taxable investments, not tax-advantaged retirement accounts. Finally, it's important to keep in mind that the trading costs of selling and buying a new security could offset a portion of the tax benefits.

When done correctly, tax-loss harvesting can convert market selloffs into tax benefits. It's a tool you can use to sell investments and rebalance portfolios in a tax-efficient manner, but it shouldn't outweigh other financial considerations, jeopardize your long-term goals, or cause you to sell an attractive long-term holding. However, when the opportunity arises and you're reviewing portfolios, tax-loss harvesting can be a powerful tool to rebalance and diversify a portfolio.

More to Consider

Here are some other things to consider as part of your year-end tax review.



BOND YIELDS ARE UP, BUT WHAT ARE THE RISKS?

After years of low yields, bonds are offering higher yields that may be appealing to investors regardless of their risk tolerance. While bonds could play a role in any portfolio, they can be a mainstay for retirees looking for stability and income, and near-retirees might consider shifting some assets into bonds in preparation for retirement.

Bonds are generally considered to have lower risk than stocks — one good reason to own them — but they are not without risk. In fact, bonds are subject to multiple risks. In considering the brief explanations below, keep in mind that coupon rate refers to the interest paid on the face value of a bond, whereas yield refers to the return to the investor based on the purchase price. A bond purchased for less than face value will have a higher yield than the coupon rate, and a bond purchased for more than face value will have a lower yield than the coupon rate.

Interest rate risk (or market risk) — the risk that interest rates will rise, making the coupon rate on an existing bond less appealing because new bonds offer higher rates. This typically lowers the value of a bond on the secondary market, but it would not change the yield for a bond purchased at issue and held to maturity. As the Federal Reserve has rapidly raised rates to combat inflation, the potential resale value of existing bonds has plummeted. However, rates may be nearing a peak, which potentially could make it a more opportune time to purchase bonds. If interest rates drop, the value of a bond will typically increase.

Duration risk — the risk that longer-term bonds will be more sensitive to changes in interest rates. Duration is stated in years and based on the bond's maturity date and other factors. A 1% increase in interest rates typically will decrease a bond's value on the secondary market by 1% for each year of duration. For example, a bond with a duration of seven years can be expected to lose 7% of its value on the secondary market.

Opportunity risk (or holding period risk) — the risk that you will not be able to take advantage of a potentially better investment. The longer the term of a bond, the greater the risk that a more attractive investment might arise or other events might negatively impact your bond investment.

Inflation risk — the risk that the yield on a bond will not keep up with the rate of inflation. This might be of special concern in the current environment, but high inflation is the reason that the Fed has been raising interest rates. If inflation cools, bonds with today's higher yields could outpace inflation going forward.

Call risk — the risk that an issuer will redeem the bond when interest rates are falling in order to issue new bonds at lower rates. Investors can avoid this risk by purchasing non-callable bonds.

By the Letters

Bond ratings in descending order of creditworthiness as judged by the three best-known rating agencies (shaded ratings are considered non-investment grade)

Note: Standard & Poor's and Fitch Ratings use the symbols + and - to denote the upper and lower ranges of ratings from AA to CCC; Moody's uses the numbers 1, 2, and 3 to denote the upper, middle, and lower ranges from Aa to Caa.

Standard & Poor's	Moody's	Fitch
AAA	Aaa	AAA
AA+/–	Aa1–3	AA+/–
A+/–	A1–3	A+/–
BBB+/–	Baa1–3	BBB+/–
BB+/–	Ba1–3	BB+/–
B+/–	B1–3	B+/–
CCC+/–	Caa1–3	CCC+/–
CC/C	Ca	CC/C
D	C	RD/D

Credit risk (or risk of default) — the risk that the bond issuer is unable to make promised interest payments and/or return principal upon maturity. Credit-rating agencies analyze this risk and issue ratings that reflect their assessment. Higher-rated bonds are considered "investment grade." Lower-rated bonds, commonly called "junk bonds," are non-investment grade. They generally offer higher yields and are considered speculative with higher credit risks.

Some lower-rated bonds may be insured, so the bond carries two ratings, one for the bond and one for the insurance company. Bond insurance adds a potential layer of protection if an issuer defaults, but it is only as good as the insurer's credit quality and ability to pay. An investor should not buy bonds based solely on the insurance.

The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

ENRICHING A TEEN WITH A ROTH IRA

Teenagers with part-time or seasonal jobs earn some spending money while gaining valuable work experience. They also have the chance to contribute to a Roth IRA — a tax-advantaged account that can be used to save for retirement or other financial goals.

Minors can contribute to a Roth IRA provided they have earned income and a parent (or other adult) opens a custodial account in the child's name. Contributions to a Roth IRA are made on an after-tax basis, which means they can be withdrawn at any time, for any reason, free of taxes and penalties. Earnings grow tax-free, although nonqualified withdrawals of earnings are generally taxed as ordinary income and may incur a 10% early-withdrawal penalty, unless an exception applies.

A withdrawal of earnings is considered qualified if the account is held for at least five years and the distribution is made after age 59½. However, there are two penalty exceptions that may be of special interest to young savers. Penalty-free early withdrawals can be used to pay for qualified higher-education expenses or to purchase a first home, up to a $10,000 lifetime limit. (Ordinary income taxes will apply.)

Flexible College Fund

A Roth IRA may have some advantages over savings accounts and dedicated college savings plans. Colleges determine need-based financial aid based on the "expected family contribution" (EFC) calculated in the Free Application for Federal Student Aid (FAFSA).

Most assets belonging to parents and the student count toward the EFC, but retirement accounts, including a Roth IRA, do not. Thus, savings in a Roth IRA should not affect the amount of aid your student receives. *(Withdrawals from a Roth IRA and other retirement plans do count toward income for financial aid purposes.)*

Financial Head Start

Opening a Roth IRA for a child offers the opportunity to teach fundamental financial concepts, such as different types of investments, the importance of saving for the future, and the power of compounding over time. You might encourage your children to set aside a certain percentage of their paychecks, or offer to match their contributions, as an incentive.

In 2023, the Roth IRA contribution limit for those under age 50 is the lesser of $6,500 or 100% of earned income. In other words, if a teenager earns $1,500 this year, his or her annual contribution limit would be $1,500. Parents and other individuals may also contribute directly to a teen's Roth IRA, subject to the same limits.

IMPORTANT DISCLOSURES

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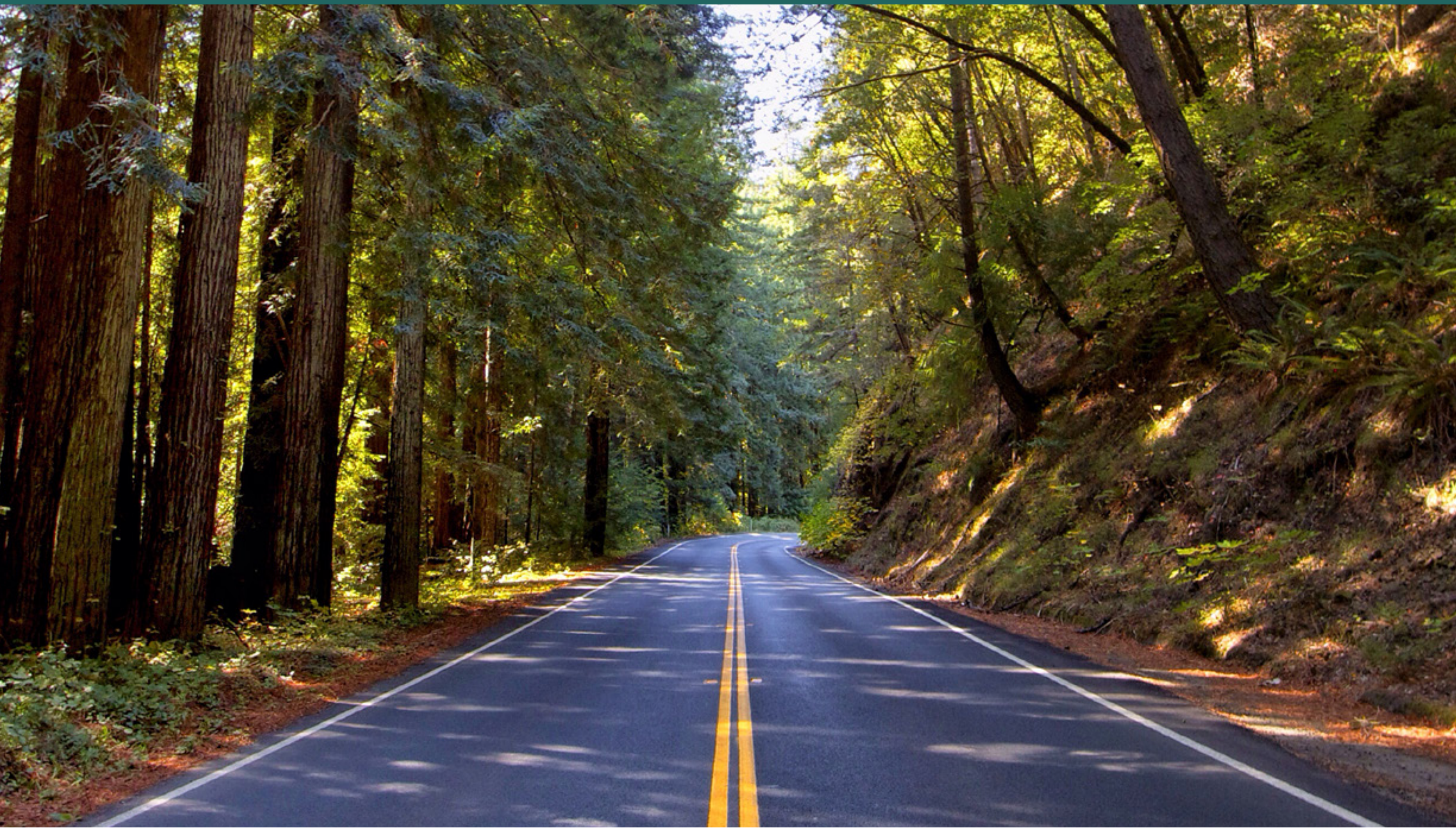
WEALTH MANAGEMENT



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