FINANCIAL ENHANCEMENT GROUP, LLC

25TH ANNIVERSARY

# YOUR 2022 TAX PLANNING CONSIDERATIONS

*"We help reduce financial regrets!"*

WWW.YOURLIFEAFTERWORK.COM
800.928.4001

# PLANNING TEAM

Annual tax planning is essential to your financial journey. Don't miss issues that can disrupt Your Life After Work. We work together, focusing on specific areas and developing core processes that we all utilize. At any time, your questions will be answered by the competency of the entire group. You deserve accurate and up-to-date fiduciary guidance, and we are honored to serve you.

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# CHANGE IS INEVITABLE!

The US tax code's primary objective is to generate revenue while simultaneously promoting social policy. Our job is to help you navigate the current rules and changes impacting your taxable income today and for the years to come. In 35 years of serving in the financial services industry, we have witnessed no more significant interruption of financial journeys for those who believed they were adequately prepared than IRS changes and general misunderstandings of taxation rules and opportunities. The annual **Tax Planning Package** was created to help you understand the tax code today and prepare you for your best financial journey.

Understanding the tax code is essential to sound planning. Each portion of this annual **Tax Planning Package** is a building block. We will offer insight, understanding, and strategies for you to consider. We collaborate with multiple CPA firms to create and deploy these strategies and encourage you to work with your team of professionals in each category. We have also included a video clip explaining each portion.

This is a resource and practical guide for today. The tax code will adjust over time, and that is why we create this report annually. The information we are providing comes from our 25 years of experience in helping more than 2,000 families that our team at the Financial Enhancement Group has assisted. We could not be more grateful for their commitment to our firm and the gracious CPAs who have invested endless hours in our processes.

We are determined to help improve your financial journey by alerting you to mistakes often made in preparing for and enjoying your life after work. Tax preparation is an annual mandatory event, and tax planning is a choice you get to make - they are two different issues. Congratulations on being one of those families investing the time in improving your financial journey.

To a great financial journey!
The FEG Planning Team

P.S. Our Planning Team is at your service to help discuss and implement these strategies. Feel free to contact your Planning Team at 800-928-4001. If you aren't currently assigned to one of our talented planners, call 833-TAX-PACK and get signed up for **Your Next Steps Meeting** today.

Joseph A. Clark, CFP®
Managing Partner and Senior Advisor

Aaron Rheaume, CKA®
Director of Financial Planning

# THE FOUR THINGS THAT OFTEN DERAIL RETIREMENT

**The Fiduciary Focus** is a guide to ensure we consider all risks and opportunities that either help or hinder your financial journey.

1. Risk and volatility of the investments in your portfolio

2. Known and unknown fees and expenses lurking within those investment options

3. Taxation, both for the current year and for the years to come

4. Real Return focuses on maintaining purchasing power and preserving your standard of living at retirement

Few individuals want to pay more tax in any given year. We focus on delivering the least amount of taxes over your entire financial journey. Understanding and incorporating various strategies can minimize your long-term taxation and enhance your retirement income. Your beneficiaries will also benefit from those decisions.

For a longer explanation of the options and opportunities, visit:
https://youtu.be/pd8sQYxp_5U

# THE DIFFERENCE BETWEEN TAX PLANNING AND TAX REPORTING

Tax reporting is a mandatory event typically occurring in April of the following year. Tax planning is a choice or decision that you make throughout the year. During your working years, tax planning often determines the amount of withholding from your paycheck. During the distribution or retirement years, the tax planning focuses on which asset to use in any given year.

If you focused on tax diversification while building your nest egg, you can choose which asset to use as income is required or desired. Required income is known as those funds necessary to maintain your standard of living or the amount you are required to take from tax-deferred plans as you age. Remember, tax diversification expands the choices you can make in the future.

Regardless of your asset base, you will either default to the tax plan the IRS provides, or you can plan for your most efficient distribution strategy. Understanding how the tax code works will help you make the right decision for yourself and your family.

For a longer explanation of the options and opportunities, visit https://youtu.be/HhqnxmLt8Rg

# HOW TO READ YOUR TAX RETURN

The key numbers for the average individual to know concerning their tax return are their AGI or adjusted gross income, the taxable income, and the amount applied to itemized deductions. The IRS has reported that 90% of the population now uses the standard deduction and no longer itemizes their deductible expenses. For many Americans, using the standard deduction is appropriate. If you are charitably inclined, a new gifting strategy may be in order. Understanding how itemized and standard deductions work can impact your financial journey.

For a longer explanation of the options and opportunities, visit:
https://youtu.be/hckvZWEgpus

# INCOME VARIABILITY AND YOUR OPPORTUNITIES

Will there be unusual changes to your taxable income this year? The reasons for the changes all boil down to a potential change in your marginal tax rate. The increase or decrease in your income this year should cause you to consider altering this year's financial decisions.

Likely contributors to income variability: promotions or demotions, marriage, divorce, the passing of a spouse, retirement, new pension, beginning Social Security, Required Minimum Distributions (RMDs) based on age, bonuses, sale of an asset, and one-time charitable gifts.

The reason for the change in income matters, but it is immaterial for your tax return. All the IRS is interested in is the amount of recognized income and the source. Your job is to determine if this is an income typical of your past, planned short-term future, or if this is an exceptional year regarding income. Keep in mind that "exceptional" can be either something that increases or decreases your amount of taxable income.

For a longer explanation of the options and opportunities, visit
https://youtu.be/KaiiztQOwHk

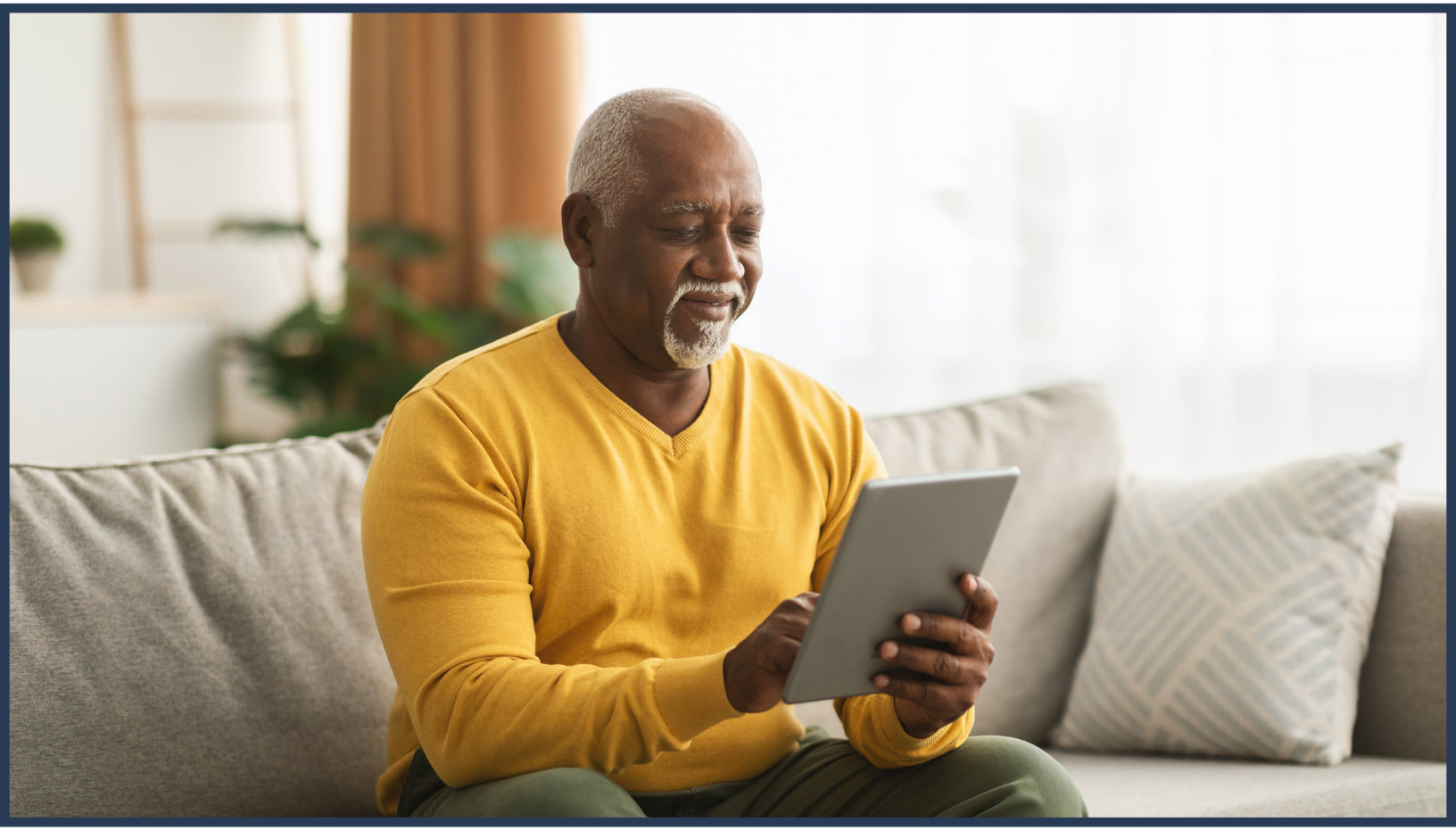
# IS BRACKET BUMPING RIGHT FOR YOU?

Your marginal tax rate is the percentage of tax you pay on the last dollar of ordinary income you recognize on your tax return. Each tax bracket has the amount of income taxed at that level. The range of income taxed at any given rate is based on your filing status. Families filing as married have more money they can recognize and stay within a given bracket or what we refer to as a tax stairstep.

Typical tax behavior is to tell the IRS how much income you recognized and pay the associated tax. The Bracket Bumping strategy suggests that you predetermine your taxable income before the year-end. Intentionally recognize income up to the top of your marginal rate if the process is right for your financial journey.

By understanding your financial journey and likely income variability in the future, you can make an informed decision on whether it is better to pay taxes at your current marginal rate or wait until a later time. Regarding tax-deferred dollars, the IRS will get their portion, now or later, from you or your heirs, with the only potential exception being money left to charities.

For a longer explanation of the options and opportunities, visit:
https://youtu.be/7AFkHpzPWCk



# THE DOUBLE STACKING STRATEGY

Is **Double Stacking** right for you? That depends upon several factors, some of which you can control and others you cannot. Do you take the itemized or standard deduction? Do you have a large dollar amount of itemized deductions, but the total falls short of the standard deduction limit? The **Double Stacking Strategy** may be right for you if you itemize or have large deductions – primarily derived from state taxes, mortgage interest, and charitable gifting.

A **Double Stacking Strategy** is to intentionally increase your itemized deductions one year and take the standard deduction the following year. The tax-efficient benefit is that you maximize both your deductions and take advantage of the standard deduction limit over a two-year period of time.

Please don't forget to work with a trained and qualified professional when considering this or any advanced tax planning strategy.

For a longer explanation of the options and opportunities, visit:
https://youtu.be/CMYHCLI3WPI

# THE TWO "C'S" OF THE ROTH STRATEGY

Building tax diversification during your financial journey allows you to increase your options during **Your Life After Work**. Tax diversification is systematically building wealth in accounts with a varying tax nature.

There are two "C's" about a Roth conversation: Contribution and Conversion. The contribution amount is limited based on your income but not your age. The conversion opportunity; however, comes from existing tax-deferred assets with no limit on income or age.

Tax-deferred assets come from defined contribution plans at your place of employment and contributions to traditional IRAs. You enjoy reducing your current taxation today in exchange for paying taxes on both the contribution and the growth in the future.

After-tax assets are built by contributions that are not attached to the various types of retirement accounts. The income from interest, dividends, and recognized capital gains are subject to taxation yearly, but you can use the assets anytime you like without tax penalties.

Tax-free assets are built in Roth programs. Many retirement plans at work offer the ability to contribute your share of savings to the Roth portion of the account. The employer contribution must be tax-deferred. You don't get a tax reduction today, but you never have to pay the taxes on the contribution or the growth upon withdrawal. The IRS has multiple stipulations for age and circumstance, but assuming you are using the assets for your retirement years, the Roth component can be extraordinarily beneficial to your financial journey.

For a longer explanation of the options and opportunities, visit:
https://youtu.be/32jLFJGMD8k

# CHARITABLE GIFTING STRATEGIES: THE BETTER GIVER

Our focus at FEG is to assist you in being efficient in your financial decision-making process. Efficient to us means taking your hopes, dreams, and desires and helping your financial journey meet your expectations with the least number of interruptions. Our job is not to encourage more significant gifts but to make your charitable gifts the most tax and investment efficient for you.

There are options for what you give to a charity depending upon your tax diversification strategy and, in some instances, your age. Cash, stock, and IRA assets have options and opportunities to meet the impact you want to provide to a charitable organization.

Transferring assets during life and upon your passing may not be your highest priority, or giving may be second nature and part of your DNA. The strategy you use to make those gifts is rarely considered and can have a significant tax impact, allowing you to keep more or give more to your charities or heirs.

For a longer explanation of the options and opportunities, visit https://youtu.be/Lhshlz7-9xo

# ANNUAL TAX PLANNING

Planning of any type deals with the known and unknown, the possible and the probable. The shorter the time span, the more likely your planning assumptions will be accurate. Over longer time periods the inevitability of surprises will impact the best laid intentions. But it is still our duty and responsibility to plan for the most likely outcomes while assuring ourselves we have the best options available to us when the time to decide upon how and when we will replace our income.

Tax planning takes into account the three likely stages of your filing status. We will all start as single taxpayers and likely in our lowest income producing years. The majority will progress to married filing jointly status. This stage is often our largest swing in marginal tax rates over many years. Our income rises typically and reaches its peak just prior to retirement. The deductions for children have been replaced with a higher standard deduction, leaving the only significant choices you can make that will impact your annual tax return to these areas:

Retirement contributions
Charitable gifting (if you can itemize)
Retirement account withdraws including Roth conversions
Recognizing capital gains
When to take Social Security

Eventually one of you will pass away, leaving fond memories, a nest egg for others, and a compressed marginal tax rate for the survivor. The year one of us dies is the last year our spouse is permitted to file a married joint return. After that, they are back to single status from a tax perspective and for families that adequately saved for their future, the surviving spouse is often in a higher tax bracket than before losing their spouse.

Tax planning, building tax diversification, and paying attention to annual tax income variations are the keys to a successful financial journey. We wish you the best of success and we are honored to be of service.

The FEG Planing Team

P.S. Feel free to rewatch the educational videos and share them with those you care about. Your beneficiaries and your spouses will thank you for investing your time in tax planning. We help reduce financial regrets and few issues are more regrettable than simple tax strategies that were overlooked and are no longer an option. Call 800-928-4001 and speak to one of FEG's planners to make sure you are making the most of your tax planning options.

*"Success is never dependent upon one thing, but failure can be."*
*–James Clear*

# STAY CONNECTED

Getting connected and forming relationships with the families we serve is our top priority. Making sure we understand your vision and who you are is paramount in cultivating a lasting partnership. At Financial Enhancement Group, we provide many opportunities to connect, ranging from fun events, such as golf or art, to informative and educational presentations relevant to your financial journey. Although we take care of families who don't want to worry about their money, staying connected and communicating plays a crucial role in our relationship. You can always visit our website to get a current list of ways to stay connected.

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