The LynnLeigh Journal

Life. Investing. And Everything in Between

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Tax Time – Tips to Cut Your Bill

By Kelly Olczak, CFP®

The IRS announced that January 23 was the start of the 2023 tax season—or the date the IRS began accepting 2022 tax year returns.

When Do I File?

If you have yet to file, most taxpayers have until Tuesday, April 18, 2023, to submit their tax return or request an extension. Taxpayers requesting an extension have until October 16, 2023, to file.

Even if you file for an extension, you are still required to pay the taxes you owe by April 18.
Is your business organized as a partnership, are you a part of a multi-member LLC, or do you own an S-Corporation? If so, you must file the appropriate business form by March 15, 2023. C-Corps abide by the traditional April 18 deadline.

For most deductions, deadlines to minimize taxes have already passed. For example, you can no longer take a tax loss on the sale of an asset for tax year 2022. The same holds true for charitable contributions.

But as you prepare to file, we want to remind you that opportunities to harvest tax savings are still available.

Fund your retirement!

You may contribute to an IRA and credit tax year 2022 up until April 18.

To contribute to a traditional IRA, you or your spouse, if you file a joint return, must have taxable compensation, such as wages, tips, bonuses, or net income from self-employment.

There are no income limits that might prevent you from contributing to a traditional IRA account. There is no age limit that would prevent a contribution to a traditional IRA. That change began in 2020.

Will your contribution be fully deductible in a traditional IRA?

It depends on a couple of factors. If your income is less than a certain amount ***or*** if you (or your spouse) does not have an employer-sponsored retirement plan, your traditional IRA contribution is fully deductible. If

How much can I contribute?

The maximum total annual contribution for all your IRAs (traditional and Roth) combined is:

If you are under 50 - **$6,000** for tax year 2022 and **$6,500** for 2023,

50 or older? You may contribute up to **$7,000** for 2022 and **$7,500** for 2023.

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you or your spouse has a 401(k) or pension plan, the tax-deductible portion of your IRA contribution may be limited.

For the tax year 2022, if you file single and participate in an employer-sponsored plan, you may take a full deduction if your modified adjusted gross income (MAGI) is less than **$68,000**. No deduction is available if your MAGI is greater than **$78,000.** The deduction is pro-rated for MAGI between $68,000 and $78,000.

Limits rise to **$109,000** if filing jointly and you participate in an employer-sponsored plan. There is a phase-out between **$109,000 and $129,000**. A deduction is not allowed if your MAGI is above **$129,000**.

Want to learn more about IRA Contributions?

Click here to get more details.

If your spouse participates in an employer-sponsored plan, you receive full deductibility if your MAGI is under **$204,000**, partial deductibility if between **$204,000 and $214,000**, and no deduction if your MAGI is above **$214,000**.

While you may not be able to fully deduct your contribution, any appreciation in invested funds is tax-deferred if it remains in your IRA. Withdrawals of contributions are not taxed.

How does this work? If you make a total of $20,000 in nondeductible contributions over several years and the account is worth $100,000, then 20% of a withdrawal is tax-free.

Just be sure to file Form 8606 for every year you made nondeductible IRA contributions.

Deductibility limits enhance the advantage of a Roth IRA

A Roth is available if your MAGI]] is less than $129,000 and you are filing as a single, and $204,000 if married filing jointly.

You lose the ability to contribute to a Roth if your income is above $144,000 (single) and $214,000 (married).

The maximum contribution is pro-rated if your MAGI is in between the limits. Roth contributions are not deductible.

Want to learn more about ROTH IRA Contributions?

Click here to get more details. about IRA

HDHP & the HSA

Do you have a high-deductible health plan (HDHP)? The IRS defines a HDHP as a plan with a deductible of at least $1,400 for an individual or $2,800 for a family.

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Learn more about your HDHP and HSA options

Click here to get more details.

If you have HDHP, you may qualify for a Health Savings Account (HSA) if your health plan is HSA-eligible. Check with your insurance company to clarify whether your health plan is HSA-eligible.

You must have HSA (health savings account) eligible insurance beginning December 1, 2022, to qualify for a 2022 HSA contribution. Contributions, other other than employer contributions, are deductible on the eligible individual's tax return. Earnings are not taxed inside the HSA, and withdrawals used for qualified medical expenses are not taxed.

For 2022, you may contribute up to $3,650 for single coverage. If you have family HDHP coverage, you can contribute up to $7,300. You have until April 18 to fund your HSA for tax year 2022. If you are 55 or older, you may contribute an additional $1,000.

Triple-play for an HSA

First, funds you contribute to an HSA are deductible. Second, earnings are tax-deferred, and third, if withdrawn for any reason at 65 or older, you pay only income taxes but no penalty. It's much like an IRA; however, withdrawals for qualified medical expenses remain tax-free, unlike an IRA.

If you are HSA-eligible, consider prioritizing an HSA over an IRA.

Self-employed? A SEP may be your best bet.

If you are self-employed, consider a SEP (simplified employee pension) IRA. Almost any business can establish a SEP-IRA, and contributions limits are much higher than an IRA.

You may contribute the lesser of 25% of compensation for an employee (20% if you're self-employed) or $61,000 for tax year 2022. In addition, a SEP-IRA may be opened and funded up to the tax-filing deadline, which includes extensions.

Here is more information about SEP IRAs

Click here to get more details.

These plans have various rules, which we can assist you with. You will be required to contribute to employee accounts when you contribute to your own SEP-IRA account, but this tax-deferred vehicle offers generous contribution options.

Don't forget tax credits.

Tax credits do not reduce taxable income. Instead, they reduce the taxes you owe. That means a $1,000 tax credit reduces federal taxes by $1,000. It's that simple.

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Tax credits that may be available to you include:

- Child or Adoption Tax Credit
- Earned income Tax Credit
- Lifetime Learning Credit
- Credit for Other Dependents

- Low-Income Housing Credit
- Premium Tax Credit through the Affordable Care Act
- American Opportunity Tax Credit

The Inflation Reduction Act provides new ways to save. The Act creates or extends tax credits for wind, solar, zero-emission vehicles, energy savings, and other renewable sources.

If you made energy-efficient improvements to your home last year or purchased a zero-emission vehicle, these credits may be available to you.

- Credits for new clean vehicles purchased in 2022.
- Energy-efficient home improvement credit
- Residential clean energy credit

The list is not all-inclusive, and we encourage you to check in with your tax advisor or reach out to us if you have additional questions.

Month in Review - A quick update on Market Conditions

Hitting the economic gas pedal stymies stocks

"Usually, recessions sneak up on us. CEOs never talk about recessions," economist Mark Zandi of Moody's Analytics said at the end of 2022.

"Now it seems CEOs are falling over themselves to say we're falling into a recession. ...Every person on TV says recession. Every economist says recession. I've never seen anything like it."

What's behind the gloomy talk? The Federal Reserve's rate-hike campaign hasn't been this aggressive since 1980.

Closely watched leading indicators such as the Conference Board's Leading Economic Index are signaling that a recession is all but inevitable this year.

An inverted yield curve (longer-term bonds yield less than shorter-term bonds) has been a reliable warning sign. The curve inverted last year.

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However, if we were to put six economists in a room, we'd find ourselves listening to no less than ten opinions! Just for the record, Dr. Zandi is not in the recession camp.

That said, the economy took a curious and unexpected turn as the new year began.

Nonfarm payrolls jumped by over 500,000 in January per the U.S. BLS, surprising nearly everyone.

Taking advantage of cost-of-living raises and an 8.7% rise in the cost-of-living adjustment for Social Security, consumers went on a spending spree in January.

Good news on inflation last year failed to carry over into early 2023. Moreover, upward revisions for the final months of 2022 suggest that the road to price stability may take longer than many had expected.

What does this mean?

Stocks rebounded in January amid hopes the Federal Reserve was nearing the end of its rate-hike cycle. A more flexible-sounding Jay Powell added to the encouraging mood.

However, the strong economic start to 2023 is forcing a reevaluation of the early optimism on rates, and last month investors reacted accordingly.

Could the economy sidestep a 2023 recession? Further, Goldman Sachs estimates that about 65% of the fiscal stimulus checks and government payments received in 2020 and 2021 have yet to be spent, providing additional fuel for continued economic growth this year.

Are leading economic indicators failing to account for the mountain of cash that remains on the sidelines? Never has Congress been so generous with fiscal support.

Cash that was socked away in bank accounts helped many bridge the gap between wage hikes and inflation last year and could continue to do so well into 2023.

Perhaps January's strong start was just a one-month aberration.

But the most recent data have complicated the Fed's job, as stronger economic growth may lead to significantly more rate hikes than were expected just a few weeks ago.

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Table 1: Key Index Returns

	MTD %	YTD %
Dow Jones Industrial Average	-4.2	-1.5
NASDAQ Composite	-1.1	9.5
S&P 500 Index	-2.6	3.4
Russell 2000 Index	-1.8	7.7
MSCI World ex-USA**	-2.5	5.5
MSCI Emerging Markets**	-6.5	0.8
Bloomberg US Agg Total Return	-2.6	0.4

Source: Wall Street Journal, MSCI.com, Bloomberg
MTD returns: January 31, 2023 – February 28, 2023
YTD returns: December 30, 2022 – February 28, 2023
**in US dollars

I trust you've found this review to be educational and helpful.

If you have any questions or would like to discuss any matters, please feel free to give me or any of my team members a call.

If you are a client of ours, I recognize that you have many advisors to work with. For that, I'm honored and humbled for the opportunity to serve as your financial advisor. If you are not one of our clients and would like to chat about our unique client experience, I would be very happy to meet with you!

All the best,

Kelly

Kelly L. Olczak, CFP®
Managing Partner
LynnLeigh & Company, LLC
1160 A Pittsford-Victor Rd
Pittsford, NY 14534

kelly@lynnleighco.com

(O): 585-623-5982
(M): 585-200-2320