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FALL 2021

Tax Planning through Life

Most people do not plan for their taxes throughout the year. They file their taxes and then shunt the whole process aside until next year. In reality, anyone who earns money and files taxes can save money by planning throughout their life.

In Your 20s

The good news is you're probably not taxed very heavily yet, but the bad news is this is because you are not making very much money. Make sure that you have all your key financial documents organized and identity information like your birth certificate and Social Security card in a secure place. If your parents opened any accounts for you when you were younger, make sure you have all relevant paperwork now. Consider meeting with an accountant or advisor to make sure you set off on the right foot. Tips:

✔ Contribute to a tax-deferred retirement account, like a 401(k) plan or IRA. Take full advantage of any employer-matching contributions, even if you want to pay off student loans quickly. That free money will most likely grow in your account at a higher rate of return than your low-interest loans.

✔ Keep track of your student loan payments. You can deduct the interest you pay on your loans when you file taxes and sometimes can qualify for an income based repayment plan if you owe more than you make.

✔ Save receipts and records if you relocate for a job, since these expenses can be deducted.

✔ Make sure you are withholding the correct amount. Getting a big refund at tax time is exciting, but by over-withholding, you have let the government sit on your cash without making it work for you during the year.

In Your 30s

Now your finances get significantly more complicated, as your savings increase along with your expenses. Tips:

✔ Keep saving in tax-deferred accounts, but also consider opening a tax-free account like a Roth IRA or Roth 401(k) plan so you

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Calculating Your Investment's Basis

Your capital gain or loss on the sale of an investment equals the proceeds from the sale less your basis. When you purchase an investment, your basis equals the price you paid plus any fees or commissions. Other factors can affect your basis calculations:

✔ Reinvested dividends are added to your basis at full market value plus any fees or commissions.

✔ The basis of any investment received as a gift is the donor's original basis plus any gift tax paid by the donor. However, if you then sell the investment at a loss, your basis is equal to the lesser of the donor's basis or the investment's fair market value on the date of the gift.

✔ For inherited investments, the basis is the market value on the date you inherited the investment, typically the date of the donor's death.

✔ Your basis in stock that has been split is the same as your basis before the stock split.

✔ When you exercise a stock option, your basis equals the price you paid for the shares plus any fees or commissions, which may be lower than market value. Shares must be retained for at least one year after purchase and for two years after receipt of the option, or any gains will be taxed as ordinary income. ❍❍❍

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Tax Planning

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will have more income options in retirement.

- If you plan to get married or have children, meet with a tax or financial advisor to ensure you are making the best financial decisions for this point in your life. Consider setting up a 529 plan for your children's future education.
- Review the credits and deductions available to you, especially the ones related to child and dependent care. Make sure you are getting everything you qualify for.
- Use a flexible spending plan and reimbursement accounts for any medical bills.

In Your 40s

This is when you will probably hit your earning peak. This may bump you into a higher tax bracket, so maximizing possible deductions (like contributions to a retirement account) is more important than ever. Tips:

- Upgrade your charitable giving and keep track of any eligible gifts you make. Keep the documentation so you can deduct your giving at tax time.
- Make sure to meet with an advisor before drawing money from taxable investment accounts for large expenses (such as your child's college tuition), as there may be complicated tax ramifications. Also stay abreast of any tax credits for education: your child's or your own.

In Your 50s

Retirement is edging closer and now you should be focused on saving as much as possible. Tips:

- Max out your contributions to IRAs and 401(k) plans. Now that you've turned 50, you can contribute an extra $6,500 to your 401(k) plan and an additional $1,000 to your IRA.
- Start planning for healthcare expenses down the road. Open a tax-free health savings account to reduce your taxable income now and provide a fund for health expenses in retirement.
- Know the tax implications of cashing out any stock options or other perks from your employer.

In Your 60s

This tax-planning decade is crucial to your retirement years. Tips:

- Plan for all taxes that may apply to you in retirement. For example, your retirement income level will determine whether you have to pay taxes on your Social Security benefits.
- Consider converting a tax-deferred IRA to a Roth IRA for tax-free income in retirement (but know you will have to pay any taxes owed when you convert).
- Be careful and strategic about how you make withdrawals to avoid paying higher taxes than necessary. Form a plan with your advisor to ensure you are not paying more than you have to.

Please call if you'd like to discuss this in more detail. ❍❍❍

Wells Fargo is not a legal or tax advisor.

How to Be Financially Responsible

Being financially responsible is all about living within your means and spending less than what you make. To determine if you are financially responsible, take a serious look at your finances and your spending habits. The following can help you with establishing financial responsibility.

Budget: Financial responsibility starts with a budget. Understand where your money is going and determine how much you need to cover necessities. Your budget should also include how much money you need to pay down debt, as well as how much will go toward savings.

Credit Cards: Probably the biggest culprit of not being financially responsible is credit cards. Many people use them for convenience and to rack up rewards, but if you can't pay your balance off each month, you could be headed for debt overload, which will ultimately hurt your credit. Credit cards should not be used to make ends meet, but rather for convenience. If you have credit card balances, you should rethink your spending habits and make paying off those balances a priority.

Other Debt: For most people, borrowing is necessary to purchase a home and a car, but there are ways to do it in a financially responsible manner. It comes down to knowing the difference between wants and needs. You don't need to live in a mansion or drive the best luxury car if your budget doesn't support it. Think about how much you are going to pay in interest when purchasing a home or car to help guide you in making the best choices.

Saving: If you are spending your entire paycheck and not saving, you need to take a serious look at your finances, because long-term saving needs to be high on your list of financial priorities. The best way to start saving is to have it automatically withdrawn from your paycheck and deposited into a savings or retirement account.

Emergencies: Financially responsible people are always prepared for the unexpected. You should save approximately three to six months of income to cover emergencies, such as a job loss or medical bills. ❍❍❍

Watch Out for Retirement Derailers

To make sure your retirement isn't derailed, consider these tips:

1. Start saving now. Because of the power of compounding, starting to save for retirement just a few years earlier can make a huge difference at the end.

2. Save now to spend later. This is where it's critical to make a budget for current expenditures, a retirement budget, and a plan for how to make retirement work. That plan may involve trimming current expenditures, scaling back retirement expectations, or both.

3. Prepare a retirement plan. Unless you plan to work until the day you die, a retirement plan should be an integral part of your overall financial plan — and no matter what your circumstances, a financial plan is a very important way to decrease the likelihood that your life plans will be derailed by unexpected circumstances that inevitably arise.

Think seriously about things you might want to spend money on before or during retirement — like helping out grown children or grandchildren — and then build that into your retirement plan. Obviously, unexpected circumstances do arise, but if you can anticipate that your children or grandchildren might need help and you are willing to help them, put that into your financial plan.

4. Review the implications of taking Social Security benefits before reaching full retirement age. For people near retirement age who lost their jobs when the Great Recession hit, taking Social Security at age 62 probably seemed like a far better idea than trying to get a new job. But it's important to understand that while the government will let you start taking benefits at age 62, it will penalize you for it: for an individual born in 1960 or later who retires at age 62 instead of age 67 (full retirement age), his monthly benefits will be reduced by 30%.

5. Have a candid conversation with your parents or other family members whom you might be caring for in old age. Talk about how they'll want to be cared for and the means they have to pay for such care. Urge them to consider long-term-care insurance, which can greatly ease the financial burden of paying for their care.

If you have already been impacted by a retirement derailer — or any other circumstance that has impacted your retirement plans — here are five ways you can get back on track:

1. Take advantage of catch-up provisions. If you are 50 or older, you can contribute more tax-deferred income to a 401(k) or IRA (these are so-called "catch-up contributions"). In 2021, you can contribute $6,500 more to a 401(k) or 403(b) plan and $1,000 more to an IRA.

2. See where you can trim expenses to save more. Boosting your savings to get back on track for retirement might be easier than you think: most of us spend more than we realize on discretionary categories like meals out, clothing, travel, and other personal expenditures. Take a hard look at your budget and see where you can cut back — even $100 per month can make a difference in your retirement savings.

3. Evaluate your investment choices. Review your current asset allocation. Many individuals close to retirement pull money out of the stock market, missing out on significant investment opportunities. That said, you want to ensure that your asset allocation is appropriate (not too heavy in equities) given your age and target retirement date.

4. Reevaluate your retirement lifestyle. Most financial advisors recommend that you be able to replace at least 70% of your pre-retirement income during retirement. So if you planned to spend 85% of your current income in retirement, you might be able to scale back and still retire comfortably.

5. Work longer. When Social Security was created in 1935, the average American 65-year-old man could expect to live to age 78 and the average American woman to 80. Today, the average American 65-year-old man can expect to live to 84.3 and the average American 65-year-old woman to 86.6 (Source: Social Security Administration, 2020). In that context, working five more years might not be such a sacrifice — and it can make a big difference in the retirement lifestyle that you can afford. For a 60-year-old who has a retirement account balance of $250,000 today and contributes $2,000 a year, pushing retirement back from age 65 to age 70 would yield an additional $158,410 in total savings (not counting Social Security) — adding $300 per month to the individual's retirement income.

No matter where you're at on the path to retirement, or whether you've been derailed or not, please call to discuss this in more detail. ❍❍❍

Reasons to Revise Your Estate Plan

While experts agree you should review your estate plan every two to three years, there are numerous events that may trigger a need to review your estate plan sooner:

✔ **Did you just get married?** You and your spouse should develop or revise a plan.

✔ **Do you have a new domestic partnership or common law marriage**? You will want to make sure you specify your partner in your will.

✔ **Did you have a new baby or adopt a child?** Make sure you include all biological and adopted children in your plan.

✔ **Have you gone through a divorce?** Amid all the issues to deal with during a divorce, remember to add your estate plan to the list.

✔ **Has the guardian you originally named for your child become unable to serve?** As time passes, you'll want to make sure the guardian you selected is still the best person to care for your child.

✔ **Do you want to change or add beneficiaries?** Make sure you update your will if you want to make changes to the people who receive your assets or if a beneficiary has predeceased you.

✔ **Have you become a blended family?** If you want to provide for stepchildren, you'll need to specify them in your will.

✔ **Have you moved to a new state?** State laws for estate plans vary, so you will need to see if changes are required to your plan.

✔ **Have you had any health changes?** Review your healthcare directives to make sure they still reflect your wishes.

✔ **Have you received an inheritance?** If you receive additional assets, you will want to update your plan to include them.

✔ **Do you want a new trustee, power of attorney, or healthcare advocate?** Update your plan to ensure the people you appointed are still appropriate to carry out your wishes.

✔ **Have you recently started a business or have a current one?** You will want to develop a succession plan to name someone to run your business.

✔ **Are there changes in tax laws?** Tax laws change frequently, so you will want to review your plan to make any necessary changes. ❍❍❍

Any estate plan should be reviewed by an attorney who specializes in estate planning and is licensed to practice law in your state.

A Tax Planning Perspective

There are basically three strategies that can help reduce your income tax bill:

1. Reduce or eliminate taxes. The objective is to receive income in a nontaxable form or to find additional tax deductions, exemptions, or credits. For instance, you might want to consider municipal bonds, whose interest income is generally exempt from federal, and sometimes state and local, income taxes. Or investigate investments that generate capital gains.

2. Postpone the payment of income taxes until sometime in the future. By postponing tax payment, your earnings compound on the entire balance. You may also be in a lower tax bracket when the taxes are paid. For example, contribute as much as possible to retirement accounts.

3. Shift the tax burden to another individual. The objective of this technique is to transfer assets to other individuals so any income on those assets becomes taxable to them. Typically, however, you have to give up control of the asset. For instance, annually you can give tax-free gifts, up to $15,000 in 2021, to any number of individuals. ❍❍❍

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