OAKCREST INSIGHT

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IN THIS ISSUE

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TRADITIONAL VS. ROTH IRA

Traditional Individual Retirement Accounts (IRA), which were created in 1974, are owned by roughly 36.6 million U.S. households. And Roth IRAs, created as part of the Taxpayer Relief Act in 1997, are owned by nearly 27.3 million households.[1]

Both are IRAs. And yet, each is quite different.

Up to certain limits, traditional IRAs allow individuals to make tax-deductible contributions into their account(s). Distributions from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 72, you must begin taking required minimum distributions.[2,3]

For individuals covered by a retirement plan at work, the deduction for a traditional IRA in 2022 is phased out for incomes between $109,000 and $129,000 for married couples filing jointly, and between $68,000 and $78,000 for single filers.[4]

Also, within certain limits, individuals can make contributions to a Roth IRA with after-tax dollars. To qualify for a tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½.

Like a traditional IRA, contributions to a Roth IRA are limited based on income. For 2022, contributions to a Roth IRA are phased out between $204,000 and $214,000 for married couples filing jointly and between $129,000 and $144,000 for single filers.[5]

In addition to contribution and distribution rules, there are limits on how much can be contributed each year to either IRA. In fact, these limits apply to any combination of IRAs; that is, workers cannot put more than $6,000 per year into their Roth and traditional IRAs combined. So, if a worker contributed $3,500 in a given year into a traditional IRA, contributions to a Roth IRA would be limited to $2,500 in that same year.6

Individuals who reach age 50 or older by the end of the tax year can qualify for "catch-up" contributions. The combined limit for these is $7,000.[6]

Both traditional and Roth IRAs can play a part in your retirement plans. And once you've figured out which will work better for you, only one task remains: open an account.[7]

Features of Traditional and Roth IRAs

	TRADITIONAL IRA	ROTH IRA
TAX-DEDUCTIBLE CONTRIBUTIONS	YES*	NO
TAX-DEFERRED GROWTH	YES	YES
TAX-FREE WITHDRAWALS	NO**	YES***
INCOME LIMIT FOR 2021 CONTRIBUTIONS	DEDUCTION PHASES OUT FOR ADJUSTED GROSS INCOMES BETWEEN $109,000 AND $129,000 (MARRIED FILING JOINTLY) OR BETWEEN $68,000 AND $78,000 (SINGLE FILER)[4]	ELIGIBILITY PHASES OUT FOR ADJUSTED GROSS INCOMES BETWEEN $204,000 AND $214,000 (MARRIED FILING JOINTLY) OR BETWEEN $129,000 AND $144,000 (SINGLE FILER)[5]
DISTRIBUTIONS REQUIRED AT AGE 72?	YES	NO

* Up to certain limits
** Distributions from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 72, you must begin taking required minimum distributions.
*** To qualify, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½.

Citations

1. ICI.org, 2022
2. IRS.gov, March 12, 2021. Under the SECURE Act, in most circumstances, once you reach age 72, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA). You may continue to contribute to a Traditional IRA past age 70½ under the SECURE Act as long as you meet the earned-income requirement.
3. Up to certain limits, traditional IRAs allow individuals to make tax-deductible contributions into their account(s). Distributions from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 72, you must begin taking required minimum distributions.
4. IRS.gov, 2022
5. IRS.gov, 2022
6. IRS.gov, 2022
7. The Tax Cuts and Jobs Act of 2017 eliminated the ability to "undo" a Roth conversion.

RETURNS (AS OF 08/31/22)

ASSET CLASS	INDEX	4 WEEK	YTD	1 YEAR	3 YEAR
US Large Cap	S&P 500 TR	-4.24%	-17.02%	-12.55%	10.56%
US Large Cap	Dow Jones TR	-4.06%	-13.29%	-10.89%	6.07%
US Small Cap	Russell 2000 TR	-2.18%	-17.87%	-18.90%	7.25%
International	MSCI EAFE NR USD	-4.99%	-21.21%	-21.89%	-0.04%
Taxable Bonds	Barclays US Agg Bond TR	-3.04%	-10.68%	-11.59%	-2.10%

FIVE MOST OVERLOOKED TAX DEDUCTIONS

Who among us wants to pay the IRS more taxes than we have to?

While few may raise their hands, Americans regularly overpay because they fail to take tax deductions for which they are eligible. Let's take a quick look at the five most overlooked opportunities to manage your tax bill.

1. **Reinvested Dividends:** When your mutual fund pays you a dividend or capital gains distribution, that income is a taxable event (unless the fund is held in a tax-deferred account, like an IRA). If you're like most fund owners, you reinvest these payments in additional shares of the fund. The tax trap lurks when you sell your mutual fund. If you fail to add the reinvested amounts back into the investment's cost basis, it can result in double taxation of those dividends.[1]

   Mutual funds are sold only by prospectus. Please consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

2. **Out-of-Pocket Charity:** It's not just cash donations that are deductible. If you donate goods or use your personal car for charitable work, these are potential tax deductions. Just be sure to get a receipt for any amount over $250.[2]

3. **State Taxes:** Did you owe state taxes when you filed your previous year's tax returns? If you did, don't forget to include this payment as a tax deduction on your current year's tax return. There is currently a $10,000 cap on the state and local tax deduction.[3]

4. **Medicare Premiums:** If you are self-employed (and not covered by an employer plan or your spouse's plan), you may be eligible to deduct premiums paid for Medicare Parts B and D, Medigap insurance, and Medicare Advantage Plan. This deduction is available regardless of whether you itemize deductions or not.[4]

5. **Income in Respect of a Decedent:** If you've inherited an IRA or pension, you may be able to deduct any estate tax paid by the IRA owner from the taxes due on the withdrawals you take from the inherited account.[5]

The information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult legal or tax professionals for specific information regarding your individual situation.

Citations

1. TheBalance.com, 2021

2. IRS.gov, 2022

3. IRS. gov, 2022

4. IRS. gov, 2022

5. IRS.gov, 2022. In most circumstances, once you reach age 72, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA). Withdrawals from Traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. You may continue to contribute to a Traditional IRA past age 70½ as long as you meet the earned-income requirement.

9 FACTS ABOUT SOCIAL SECURITY

Social Security's been a fact of retirement life ever since it was established in 1935. We all think we know how it works, but how much do you really know? Here are nine things that might surprise you.

1. The Social Security trust fund is huge. It was $2.8 trillion at the end of 2021.[1]

2. Most workers are eligible for Social Security benefits, but not all. For example, until 1984, federal government employees were part of the Civil Service Retirement System and were not covered by Social Security.[2]

3. You don't have to work long to be eligible. If you were born in 1929 or later, you need to work for 10 or more years to be eligible for benefits.[3]

4. Benefits are based on an individual's average earnings during a lifetime of work under the Social Security system. The calculation is based on the 35 highest years of earnings. If an individual has years of low or no earnings, Social Security may count those years to bring the total years to 35.[4]

5. There haven't always been cost-of-living adjustments (COLA) in Social Security benefits. Before 1975, increasing benefits required an act of Congress; now, increases happen automatically, based on the Consumer Price Index. There was a COLA increase of 5.9% in 2022, but there was an increase of 1.3% in 2021.[5]

6. Social Security is a major source of retirement income for 64% of current retirees.[6]

7. Social Security benefits are subject to federal income taxes – but it wasn't always that way. In 1983, Amendments to the Social Security Act made benefits taxable, starting with the 1984 tax year.[7]

8. Social Security recipients received a single lump-sum payment from 1937 until 1940. One-time payments were considered "payback" to those people who contributed to the program. Social Security administrators believed these people would not participate long enough to be vested for monthly benefits.[8]

9. In January 1937, Earnest Ackerman became the first person in the U.S. to receive a Social Security benefit – a lump sum of 17 cents.[8]

Citations

1. SSA.gov, 2022

2. Investopedia.com, April 25, 2022

3. SSA.gov, 2022

4. SSA.gov, 2022

5. SSA.gov, 2022

6. EBRI.org, 2022

7. SSA.gov, 2022

8. SSA.gov, 2022

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