

PARTICIPANT PERSPECTIVES

Q4 2022

TAKE CARE OF YOUR TAX HEALTH

A regular review with a financial professional can help you identify strategies to improve your tax situation.

Just as regular medical checkups give you and your physician an opportunity to identify where you can improve your overall health, it's important to regularly review your tax situation with a financial professional to identify opportunities for improvements. Simple, effective steps include adjusting your withholding or timing the sales of securities to potentially reduce your tax bill. Consider these four strategies:

1. ADJUST YOUR WITHHOLDING

If you had too little tax withheld from your paycheck last year, you may receive an unexpected tax bill or penalty from the IRS. On the other hand, if you had too much withheld, you likely received a hefty tax refund. While a large tax refund can feel like a bonus, the reality is that you're providing an interest-free loan to the government. In this case, it may make more sense to reduce your tax withholding and boost your take-home pay. The additional money can be saved or invested for the long-term, potentially earning interest, dividends, or even a capital gain.

2. TIME THE SALE OF SECURITIES

How long you own a profitable asset before it is sold can impact how much income tax you pay on

your gain. An appreciated asset held for more than one year can result in a long-term capital gain upon sale; tax rates on long-term capital gains are 0%, 15%, or 20% depending on your taxable income and filing status. For example, if you are married and filing jointly in 2023, the long-term capital gains rate on income of up to \$89,250 is 0%, 15% for income between \$89,250 and \$553,850, and 20% for income over \$553,850. In contrast, short-term capital gains are taxed at higher ordinary income tax rates.

If you have capital losses, consider selling investments in your taxable accounts to generate capital gains that can be used to offset the losses. Investing in municipal bonds may provide another way to reduce taxes; municipal bond interest is generally exempt from federal income taxes and may also be exempt from state and local income taxes. Of course, credit ratings should be analyzed before purchase.

3. ADD TO YOUR RETIREMENT PLAN

Another way to potentially lower your income tax liability is by increasing the amount you contribute to your tax-favored retirement plan (limits apply). If you're age 50 or older, and your plan permits, you may be eligible to make catch-up contributions in addition to your regular plan contributions.

4. CONSIDER A HEALTH SAVINGS ACCOUNT

A health savings account (HSA) can be a good tax saving option that allows you to contribute pretax income to an employer-sponsored HSA, or make tax-deductible contributions to a personal HSA provided you are covered by a qualified high-deductible health plan. You can invest in an HSA and have it grow in a tax-deferred manner similar to an individual retirement account. HSA withdrawals for qualified medical expenses are tax-free, and

the balance can be carried over from year to year, allowing the account to grow.

PROTECT YOUR TAX RETURN FROM CRIMINALS

The following tips should help you reduce the chances of becoming a victim of tax return identity theft.

Most people today understand the importance of protecting their financial information from identity theft. Unfortunately, many individuals are less familiar with another risk — tax return identity theft. Countless taxpayers have had their tax refunds stolen by criminals using false identities. Here are some tips that may help you reduce the chances of becoming a victim of tax return identity theft.

FILE YOUR RETURN ASAP

It's important to file your tax return as soon as possible, especially if you anticipate a tax refund. Filing early, can help reduce the time criminals have to file a fraudulent return in your name.

DON'T FALL FOR "PHISHING" ATTEMPTS

Criminals typically use email or a phone call to retrieve taxpayers' personal information. Very often, they pose as IRS officials attempting to verify the accuracy of a Social Security number or other personal data. This is known as "phishing." The reality is that the IRS will never solicit personal financial information online, by email, or text. Nor will they call to demand immediate payment of back taxes, interest, or fines; instead, taxpayers receive a bill in the mail.

BE CAREFUL WITH YOUR PERSONAL INFORMATION

It's important to keep your computer secure using security software that updates automatically and includes a firewall, virus/malware protection, and file encryption for sensitive data. Other tips include:

- Never carry your Social Security card or any documents that list your Social Security number in your wallet.
- Keep old tax returns and tax records in a secure location, and shred any tax documents before disposal.
- Regularly check your credit report and bank and credit card statements.
- Don't share personal information on social media that can be used to impersonate you.

WHAT TO DO IF YOU ARE SCAMMED

If you suspect that you are a victim of tax-related identity theft, respond immediately to any IRS notice and submit Form 14039, *Identity Theft Affidavit*. Be sure to file a complaint with the Federal Trade Commission at identitytheft.gov. Finally, follow up and contact one of the three major credit bureaus to have a "fraud alert" placed on your credit records, and contact your financial institutions.

For more information on protecting yourself from identity thieves, visit www.irs.gov.

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