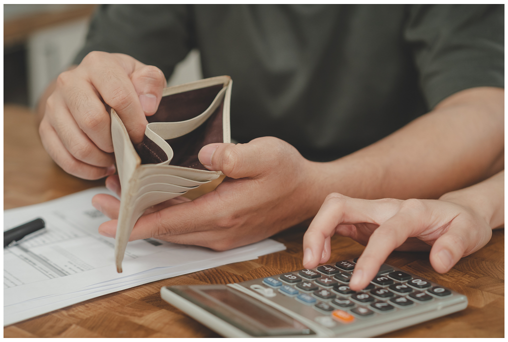
COUTO DEFRANCO, P.A.
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

ONLINE ADVISOR

November 2022

Social Security recipients got some great news about their benefits. Check out this month's newsletter to learn more about the cost-of-living increase for 2023. Also read about several tax court cases and what they might mean for your situation, how to raise a financially savvy child, and how to avoid gift card fraud during the upcoming holiday season.

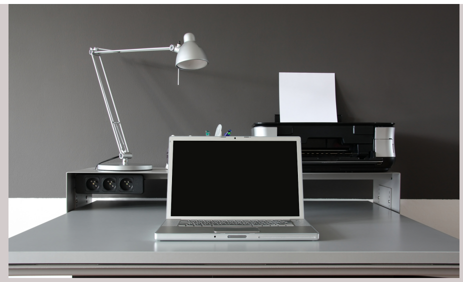
Please feel free to forward this newsletter to someone who may be interested in a topic and call with any questions you may have.



6 Ways to Cut Your Everyday Expenses

Many people dream of making more money, but cutting expenses can have the same effect. Identify unnecessary expenses with these six money-saving ideas and help free up some cash:

1. **Eliminate late fees.** Most late fees are the result of being too busy, traveling or simply forgetting. Fortunately, late fees are almost entirely avoidable if you have a plan. A lot of people only think of credit card late fees, but they can also show up in many places including utility bills, subscriptions and registration fees. Take a look at your bills and identify the kinds of charges you're getting. Scheduling automatic payments should help you avoid late fees going forward.



Upcoming dates:

November 11

- Veterans Day

November 24

- Thanksgiving

November 25

- Black Friday

Reminder

- Conduct year-end tax and financial planning

'Tis the Season for Gift Card Fraud

With supply chain snarls still plaguing parts of the U.S. economy, many consumers are turning to gift cards as the holiday present of choice this year. In fact, according to the website Research and Markets, the United States gift card industry is expected to reach $188 billion in 2022.

Why is gift card fraud such a problem?

Because of the small dollar amounts involved, gift card fraudsters face a low probability of prosecution. It's also easy to convert gift card value to cash or merchandise. In other words, this kind of fraud is relatively risk-free and easy to pull

And if you get one, call and try to get it canceled. It just might work!

2. **Cancel unnecessary subscriptions.** Subscriptions are popping up everywhere. They include everything from weekly shaving products to video and music streaming services. With so many options, it's easy to double up on services or forget to cancel one that you were planning to use for just a short time. Review all your monthly subscriptions and cancel the ones that are no longer providing value.
3. **Minimize interest expense.** Paying for day-to-day expenses with a credit card to rack up points to use for airfare or other perks is a great cash management tool, but the interest that builds up if you don't pay it off every month negates the perks and creates an extra expense. If you find yourself in a situation with multiple credit card balances, consider a consolidation loan with a lower interest rate.
4. **Be selective with protection plans.** With virtually every

off.

In one common scam, a crook goes to a retail establishment, grabs a handful of gift cards from an out-of-the-way stand or kiosk, and records the card numbers using a magnetic strip reader. After returning the cards, the crook heads home and repeatedly checks balances on the merchant's website until the numbers are activated.

The thief then spends or transfers the money on the card before the legitimate buyer or gift recipient has a chance to use it. Less sophisticated scammers may simply scratch off the card's coating and replace it with a sticker, hoping the buyer won't notice.

You can scam-proof your gift card experience by following these tips:

- **Don't pick the front card.** Crooks are impatient. They often return compromised cards to the most accessible place on the rack. Select your gift card from the middle of the rack.
- **Buy gift cards online.** Purchase cards online, directly from the business that issued them. This reduces the potential tampering risk.
- **Inspect packaging.** If you purchase gift cards in person at a store, examine the cards for signs of tampering. It's safer to buy from stores that keep gift cards behind the counter or in well-sealed packaging.
- **Register the card.** If a card issuer lets you register on their website, do it. You'll be able to check your balance regularly and identify any abuse.
- **Don't give out card information** to callers claiming to be from government agencies, tech companies, utilities or other businesses. Only scammers ask you to pay fees, back taxes or bills for services with gift cards.
- **Don't buy gift cards from online auction sites.** They could be counterfeit or stolen, according to the Federal Trade Commission.

purchase, the store or website offers to sell you insurance in the form of a protection plan. And for good reason — they're profitable to them and not you! Insurance should be reserved for things you can't live without like your health and your home. Pass on the protection plan for your toaster.

5. **Review your deductibles.** A deductible is a set amount you pay before your insurance kicks in to cover the cost of a claim. The higher the deductible, the lower your monthly premium. If you have enough in savings to cover a higher deductible when disaster strikes, raising the deductible may save you some money on a month-to-month basis.

6. **Try a little DIY.** If you own a house, you know it's just a matter of time before something breaks or stops working. When this happens, don't instantly reach for the phone to call a repairman. Repair videos are in endless supply online. An easy fix will often do the job. Simple fixes can lead to big savings, especially

If you think you've been scammed, contact the store directly and report incidents to local law enforcement.

since repair services charge minimums and fuel surcharges.

While some ideas take a little more analysis to understand the true benefits, many are just the result of paying attention. Taking a proactive approach can provide a big boost to your budget.

Social Security to See Significant Adjustment for 2023

Your 2023 Social Security Benefits

Find out how your benefits have changed

Average Retirement Benefits Starting January 2023

- All workers in 2022: $1,681/mo
- All workers in 2023: $1,827/mo (+$146)
- The 2023 maximum Social Security retirement benefits for a worker retiring at full retirement age: $3,627/mo

An 8.7% cost of living increase for Social Security retirement benefits and SSI payments begins with December 2022 benefits (payable in January 2023).

Increase your Social Security retirement benefits by 5 to 8% per year when you delay applying until you’re age 70.

Social Security Revenues & Expenditures

Revenue Sources = $1.09 trillion

- 3.5% - Taxation of benefits
- 6.4% - Interest
- 90.1% - Payroll taxes

Expenditures = $1.14 trillion

- 0.6% - Administrative expenses
- 0.4% - Railroad Retirement financial interchange
- 99.0% - Benefit payments

SOURCE: 2022 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table II.B1.

2023 Social Security & Medicare Tax Rates

If you work for someone else...

- Your employer pays **7.65%**
- You pay **7.65%**

If you're self-employed...

- You pay **15.3%**

NOTE: The above tax rates are a combination of 6.2% for Social Security and 1.45% for Medicare. There is also a 0.9% Medicare wages surtax for those with wages above $200,000 single ($250,000 joint filers) that is not reflected in these figures.

Item	2023	2022	Change
Maximum amount you may pay in Social Security taxes	**$9,932.40**	$9,114.00	+ $818.40
Maximum earnings amount Social Security will tax at 6.2%	**$160,200.00**	$147,000.00	+ $13,200.00

- **165+ million** people work and pay Social Security taxes
- Social Security has provided financial protection for Americans **since 1935**

Social Security Payments Explained

- **Social Security** (SS) retirement benefits are for people who have paid into the Social Security system through taxable income.

- **Social Security Disability** (SSD or SSDI) benefits are for people who have disabilities but have paid into the Social Security the system through taxable income.
- **Supplemental Security Income** (SSI) benefits are for adults and children who have disabilities, plus limited income and resources.

Maximum SSI Payments

Filing Status	2023	2022	Change
Individual	**$914/mo**	$841/mo	+ $73
Couple	**$1,371/mo**	$1,261/mo	+ $110

How does Social Security work?

- When you work, you pay taxes into Social Security.
- The Social Security Administration uses your tax money to pay benefits to people right now.
- Any unused money goes into Social Security trust funds and is borrowed by the government to pay for other programs.
- Later on when you retire, you receive benefits.

Here’s how you qualify for retirement benefits

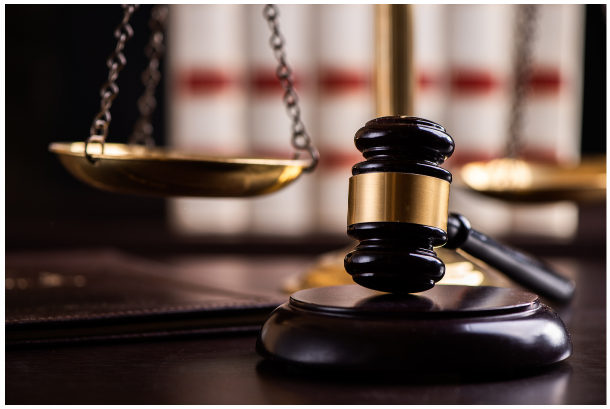
When you work and pay Social Security taxes, you earn **credits** toward benefits. The number of credits you need to earn retirement benefits depends on when you were born.

- If you were born in **1929** or later, you need **40 credits** (10 years of work) to receive retirement benefits
- You receive one credit for each **$1,640** of earnings in **2023**
- **4 credits** maximum per year

Did you know you can check your benefits status before you retire?

- You can check online by creating a *my* Social Security account on the SSA website. If you don’t have an account, you’ll be mailed a paper Social Security statement 3 months before your 61st birthday.
- It shows your year-by-year earnings, and estimates of retirement, survivors and disability benefits you and your family may be able to receive now and in the future.
- If it doesn’t show earnings from a state or local government employer, contact them. The work may not be covered within Social Security.

Sources: SSA.gov



Tax Court Corner

Here's a roundup of several recent tax court cases and what they mean for you.

Thou Shalt Not Commingle Funds

(Vorreyer, TC Memo 2022-97, 9/21/22)

Don't let sloppy record keeping prevent you from deducting legitimate business expenses. The Tax Court agreed with the IRS that business expenses must first be deducted on that business's tax return before flowing to the owner's tax return.

Facts: A married couple, the sole shareholders of an S corporation, operated a family farm in Illinois. In 2012 they paid the farm's utility bills of $21,000 and property taxes of $109,000 from their personal funds, then deducted these payments on their individual Form 1040 tax return as business expenses.

Even though the utility and property tax bills were legitimate business expenses, the deduction was disallowed because the expenses should have first been deducted on the farm's S corporation tax return, then flowed through to the shareholder's individual tax return.

Tax Tip: To pay an expense on behalf of your business, first make a capital contribution to your business, then have your business pay the expense. Then include this expense on your business's tax return.

Adding Tax Insult to Injury

(Dern TC Memo 2022-90, 8/30/22)

Payments received to settle a physical injury or illness lawsuit are generally considered non-taxable income. But you better be sure that the lawsuit you file is actually to compensate for a physical injury or illness, and not something else.

Facts: Thomas Dern, a sales representative for a paint products company in California, was hospitalized for acute gastrointestinal bleeding and a subsequent heart attack. When the company fired him because he could no longer do his job, he sued for wrongful termination. The parties eventually reached a settlement.

Dern argued in Tax Court that his illness led to his firing, and therefore the settlement should be classified as non-taxable income. The payment he received, however, was to settle a discrimination lawsuit and not a physical injury. The settlement therefore did not qualify to be non-taxable income.

Tax Tip: Pay attention to the tax consequences of settlement payments so you don't get surprised with an unexpected tax bill.

You're Stuck With the Standard Deduction

(Salter, TC Memo 2022-49, 4/5/22)

Facts: Shawn Salter, a resident of Arizona, requested and received a distribution of $37,000 from his retirement plan after being laid off from his job in 2013. Salter failed to file a tax return for 2013, so the IRS created a substitute tax return for him using the standard deduction of $6,500 for a single taxpayer. The IRS also assessed an early withdrawal penalty of 10% on the distribution.

Salter, arguing that the distribution was to pay for medical expenses which aren't subject to the 10% early withdrawal penalty, eventually did file a 2013 tax return with $25,000 of itemized medical expenses. The Tax Court disallowed the $25,000 of itemized deductions, stating that once a substitute return is created by the IRS using the standard deduction, the taxpayer can no longer claim itemized deductions for that year.

Tax Tip: Try to avoid a situation where the IRS files a substitute tax return on your behalf. Once this happens, you have no choice but to use the standard deduction for that tax year.

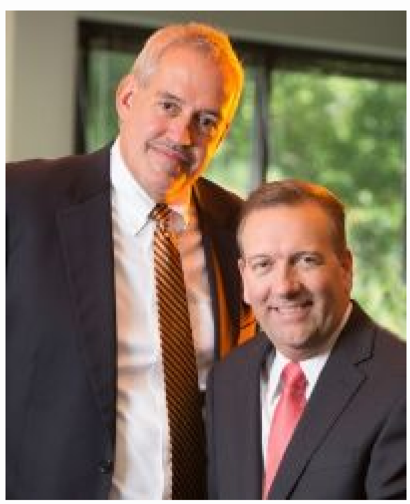
Raising a Financially Savvy Child

If you have children or grandchildren, you have an opportunity to give them a jump-start on their journey to becoming financially responsible adults. While teaching your child about money and finances is easier when you start early, it's never too late to impart your wisdom. Here are some age-relevant suggestions to help develop a financially savvy young adult:

- **Preschool –** Start by using dollar bills and coins to teach them what the value of each is worth. Even if you don't get into the exact values, explain that a quarter is worth more than a dime and a dollar is worth more than a quarter. From there, explain that buying things at the store comes down to a choice based on how much money you have (you can't buy every toy you see!). Also, get them a piggy bank to start saving coins and small bills.
- **Grade school –** Consider starting an allowance and developing a simple spending plan. Teach them how to read price tags and do comparison shopping. Open a savings account to replace the piggy bank and teach them about interest and the importance of regular saving. Have them participate in family financial discussions about major purchases, vacations and other simple money decisions.

- **Middle school –** Start connecting work with earning money. Start with activities such as babysitting, mowing lawns or walking dogs. Open a checking account and transition the simple spending plan into a budget to save funds for larger purchases. If you have not already done so, now is a good time to introduce the importance of donating money to a charitable organization or church.
- **High school –** Introduce the concept of net worth. Help them build their own by identifying their assets and their current and potential liabilities. Work with them to get a part-time job to start building work experience, or to continue growing a business by marketing for more clients. Add additional expense responsibility by transferring direct accountability for things like gas, lunches and the cost of going out with friends. Introduce investing by explaining stocks, mutual funds, CDs and IRAs. Talk about financial mistakes and how to deal with them when they happen by using some of your real-life examples. If college is the goal after high school, include them in the financial planning decisions. Tie each of these discussions into how it impacts their net worth.
- **College –** Teach them about borrowing money and all its future implications. Explain how credit cards can be a good companion to a budget, but warn them about the dangers of mismanagement or not paying the bill in full each month. Discuss the importance of their credit score and how it affects future plans like renting or buying a house. Talk about retirement savings and the importance of building their retirement account.

Knowing about money — how to earn it, use it, invest it and share it — is a valuable life skill. Simply talking with your children about its importance is often not enough. Find simple, age-specific ways to build their financial IQ. A financially savvy child will hopefully lead to a financially wise adult.



REVIEW US!

Click Here!