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Financial Briefs

JULY 2021

Tax Planning through Life

Most people do not plan for their taxes throughout the year or further down the road. They file their taxes and then shunt the whole process aside until the next year. This is a huge mistake and often made because most people believe that tax planning is only for the ultra-wealthy. 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. Chances are this is the first time you start doing taxes on your own, without being claimed as a dependent of your parents. 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 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 that 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.

Continued on page 2

Tax Planning and Retirement

Whether you're newly retired, about to retire, or thinking ahead, there are numerous benefits to tax planning in your golden years. Taxes are often the furthest thing from people's minds when it comes to retirement, but the truth is, even when you're no longer accountable to a boss or clients, you still have to answer to the IRS. Payroll taxes may be a thing of the past, but the money you plan to support yourself with, such as retirement

Continued on page 3

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FR2021-0310-0004

Through Life

Continued from page 1

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.

What Is Tax-Loss Harvesting?

Tax-loss harvesting is choosing to sell some investments at a loss to reduce taxes on realized capital gains from other investments. The key to successful tax-loss harvesting is to identify investments that have lost value and then determine which to sell, while staying true to your target investment mix and diversification strategy. Following are things to consider to see if tax-loss harvesting can help you lower your tax bill.

Assess Your Capital Gains

Thoroughly review your investments to determine a rough estimate of your capital gains. If you frequently buy and sell, you most likely have both short-term and long-term gains and losses. Long-term capital gains are those on investments you've held longer than one year, while short-term capital gains are those held for one year or less.

Estimate Your Tax Liability

After figuring out the potential amount of your capital gains, you will want to estimate your potential taxes from realized gains based on the type of gain it is and your income.

In taxable accounts, the long-term capital gains tax rate is 15% to 20% (0% for taxpayers under certain income limits), while short-term capital gains are taxed at ordinary income tax rates (10%, 12%, 22%, 24%, 32%, 35%, or 37%). Dividend income received by individual taxpayers from a domestic or qualified foreign corporation is also taxed at the same rate as long-term capital gains.

Harvesting Losses

Once you have an understanding of what you will owe in capital gains taxes, you can start looking for investments you want to sell. You may first want to consider investments that no longer fit into your strategy or those that have poor prospects for growth in the future.

To increase your potential tax savings, try to apply as much of your capital loss to short-term gains, because they are taxed at a higher rate. The tax code states that short-term and long-term losses have to first be used to offset gains of the same type. If you have losses of one type that exceeds what you have gained, you can then apply the excess to the other type of capital gains. For example, let's say you sell a long-term investment at a $16,000 loss but only had $5,000 in long-term gains for the year. You could then apply the excess of $11,000 to any short-term gains.

Additionally, if you don't have any gains in a given year, the tax code allows you to apply up to $3,000 in capital losses to reduce your ordinary income, which is the same rate as short-term capital gains.

Watch out for the Wash-Sale Rule

After you've sold the investments with losses, you will most likely start looking for new investments. Even though you took a loss on an investment to reduce your capital gain taxes, you may decide that it is still an attractive investment because it has good potential and still fits within your investment strategy. Be careful when you buy it because the wash-sale rule will disallow your tax write-off if you buy the same security, an option to buy the security, or a substantially identical security within 30 days before or after the date you sold the security with the loss.

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

Retirement

Continued from page 1

and investment accounts, savings accounts, pension payouts, and potentially even Social Security benefits, could be taxed.

In fact, depending on how much you've saved and how much you withdraw annually, you could be in a higher tax bracket than you anticipated. Couple that with the possibility of higher future tax rates, and you could find yourself with less retirement income than you had planned.

However, with sound tax planning, you can protect your golden years from becoming tarnished by unnecessary taxes, regardless of whether you're planning to retire 30 years from now or you've already done so.

If You're Thinking Ahead to Retirement…

Consider Investing in a Roth IRA/Roth 401(k)

When it comes to taxes and retirement, if you want to maximize what you've worked so hard to save throughout the years, it's critical to strategize how you invest your money. Anticipating how much you need to save is just the first step; planning on where you will allocate these savings is a critical component if you want to make the most of your retirement funds. Many people assume that contributing solely to a tax-deferred employer-sponsored plan translates to a comfortable retirement. After all, what could be better than sheltering a portion of your pre-retirement income from taxes while taking advantage of employer-matching incentives?

However, when many people retire, they're surprised to learn that their tax-deferred account withdrawals are not only taxed, but quite possibly at a higher rate than they may have anticipated. Diversifying your retirement-savings plan by contributing to a Roth IRA or Roth 401(k) could give you more flexibility when it comes to tax savings during retirement.

While you can't take advantage of tax-savings benefits now, withdrawals from Roth accounts are tax free, allowing for more latitude in retirement. In addition to future tax-savings benefits, Roth IRA accounts also provide the flexibility of penalty-free withdrawals of your contributions should you need access to monies for an unexpected situation prior to retirement.

Don't Forget about Other Taxable Investments

Unless you have funds that aren't tax deferred, safeguarding your retirement money from taxes could prove challenging. Like a Roth IRA or Roth 401(k), brokerage and/or mutual fund accounts can be valuable tax-free income sources in retirement.

Unless you want to pay taxes on every withdrawal you make during your retirement years, you'll likely want income sources that aren't subject to taxes down the road. A diversified plan that includes non-retirement accounts can protect you from higher tax brackets and maximize your income throughout your retirement years.

At Retirement Age…

Have a Withdrawal Strategy

Just as you had a retirement savings plan, you'll now need a strategic withdrawal plan to shelter as much of your retirement income as possible from taxes. The good news is, the more diversified your investments are, the more options you'll have available when it comes to tax savings. Both the timing and sequence of the accounts you draw from can significantly impact what you owe the IRS each year. For example, if you have taxable investments you've held for longer than a year, it may be more prudent to tap into these first, since the maximum 20% long-term capital gains tax could be less than the income tax rate you'll pay once you begin withdrawing from your tax-deferred retirement accounts. In fact, you might not pay capital gains tax at all, depending on your income bracket.

If you're over 72, don't forget about your minimum required distributions; though there are exceptions, failure to take these distributions can invoke a penalty as high as half of the amount you neglected to withdraw.

Plan Ahead: Targeted Tax Brackets.

You might also consider meeting with your financial and/or tax advisor to plan ahead for the following tax year with a specific marginal tax rate in mind. You can precalculate taxable income, living expenses, and deductions before deciding how much you'll need to withdraw from your investment accounts in order to stay within your targeted marginal tax rate.

Consider Delaying Social Security Benefits

This strategy actually provides you with multiple money-saving options. By delaying your Social Security benefits, you'll avoid a higher tax bracket while beefing up your distributions. This isn't just applicable to younger retirees: anyone who reaches his/her full-benefit age receives an annual 8% increase for each year distributions are delayed until age 70. While not everyone can afford to postpone Social Security benefits, you may decide that delaying these benefits as long as possible is financially advantageous in the long run.

Move to an Income-Tax-Free State

Many retirees don't just move to states like Arizona for the scenery. The tax-saving incentives can be just as appealing, particularly if you currently reside in a high-tax state. Willing to embrace the cold? Alaska has no state income or sales tax, and once you establish permanent residency, you'll even receive an annual dividend check from the state's oil wealth savings account. If you had plans involving temperatures of a warmer sort, consider moving to an income-tax-free state such as Nevada and Florida. You might also consider states that offer tax immunity solely to retirees, exempting Social Security benefits and even qualified retirement accounts from state income tax.

Please call if you'd like to discuss these strategies in more detail.

Business Data

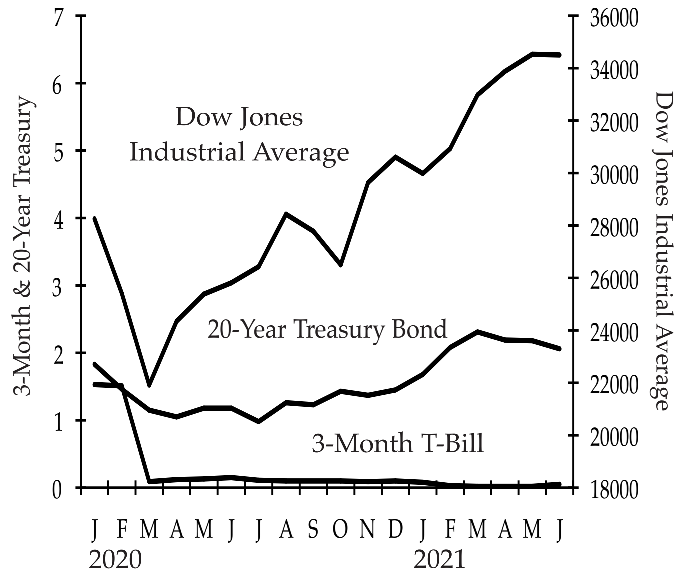
Indicator	Month-end Apr-21	May-21	Jun-21	Dec-20	Jun-20
Prime rate	3.25	3.25	3.25	3.25	3.25
3-month T-bill yield	0.02	0.02	0.05	0.10	0.15
10-year T-note yield	1.65	1.58	1.45	0.93	0.66
20-year T-bond yield	2.19	2.18	2.06	1.45	1.18
Dow Jones Corp.	2.37	2.33	2.29	1.93	2.50
GDP (adj. annual rate)#	+33.40	+4.30	+6.40	+4.30	-5.00

Indicator	Month-end Apr-21	May-21	Jun-21	% Change YTD	12 Mon.
Dow Jones Industrials	33874.85	34529.45	34502.51	12.7%	33.7%
Standard & Poor's 500	4181.17	4204.11	4297.50	14.4%	38.6%
Nasdaq Composite	13962.68	13748.74	14503.95	12.5%	44.2%
Gold	1767.65	1899.95	1763.15	-6.6%	-0.3%
Unemployment rate@	6.00	6.10	5.80	-13.4%	-56.4%
Consumer price index@	264.88	267.05	269.20	3.4%	5.0%

— 3rd, 4th, 1st quarter @ — Mar, Apr, May Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

January 2020 to June 2021



News and Announcements

Calculating Your Investment 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. While the calculation is fairly straightforward, 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. Your per-share basis, however, will now equal your total basis divided by the number of shares you own after the 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.

Please call if you'd like help calculating your basis in an investment.

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