The Planning Quarterly

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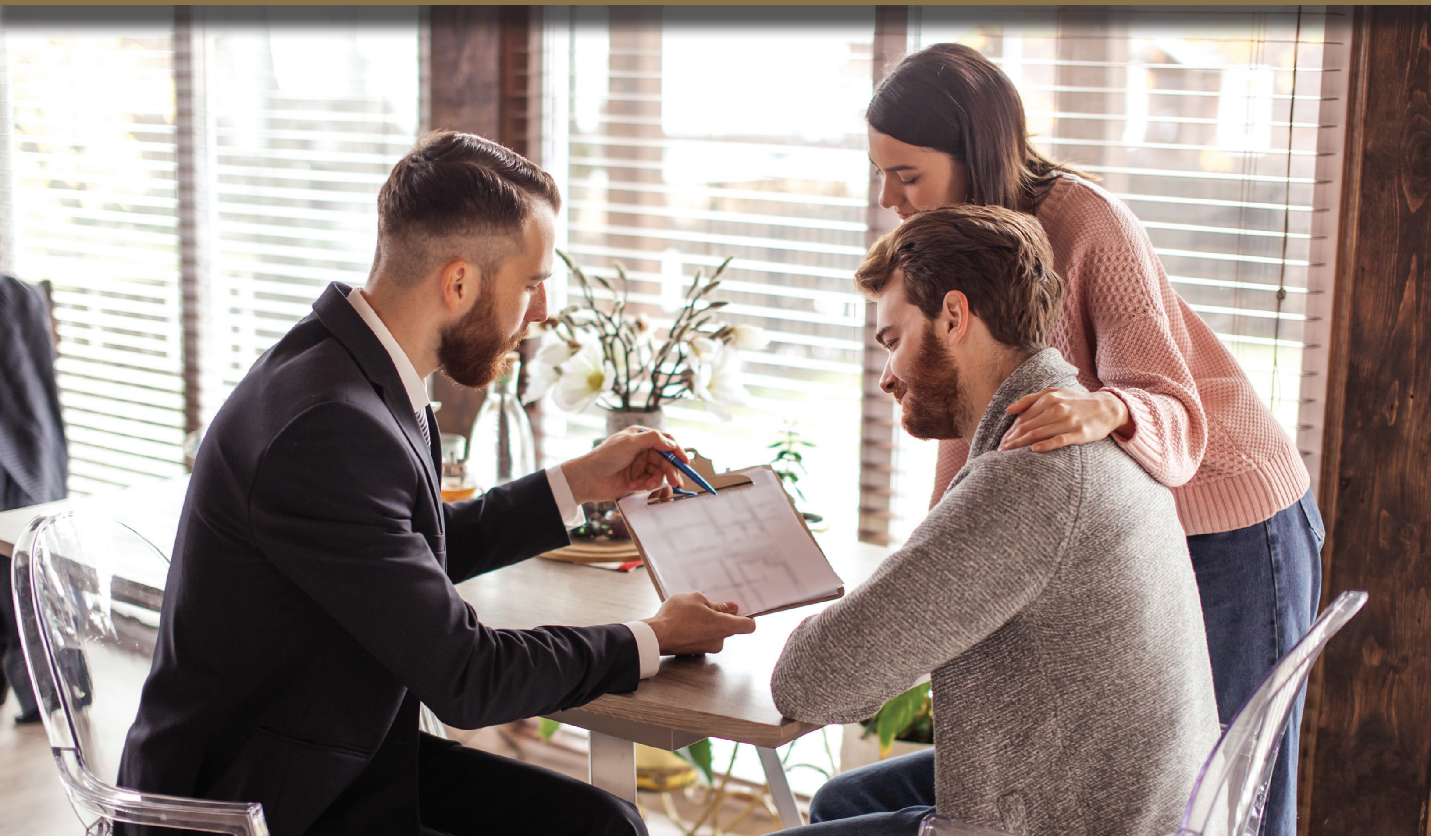

Peapack Private

Wealth Management

Welcome to the March 2023 issue of the Peapack Private Planning Quarterly. As the saying goes, nothing is certain except death and taxes—so we're covering both topics. We will also address a common retirement concern, how to recreate that regular paycheck. Please reach out to our authors—or to any of our investment and planning professionals—with your questions and feedback. Ask your own questions—you may inspire a future article. Our guidance can help you achieve your financial goals.

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Home Mortgage Interest Deduction: What You Need to Know for Filing Your 2022 Income Tax Return

By Jenny Gan, CPA

Little about taxes excites people, except when it comes to deductions. Tax deductions are certain expenses you incur throughout the tax year that you can subtract from your gross income, thus arriving at a lower taxable income.

Homeowners with a mortgage may be able to take advantage of the mortgage interest deduction to lower their income taxes. IRS rules regarding the mortgage interest deduction can be complicated. As you look ahead to tax season, here's a guide to help you understand what interest qualifies for the deduction and how you can benefit if you are eligible.

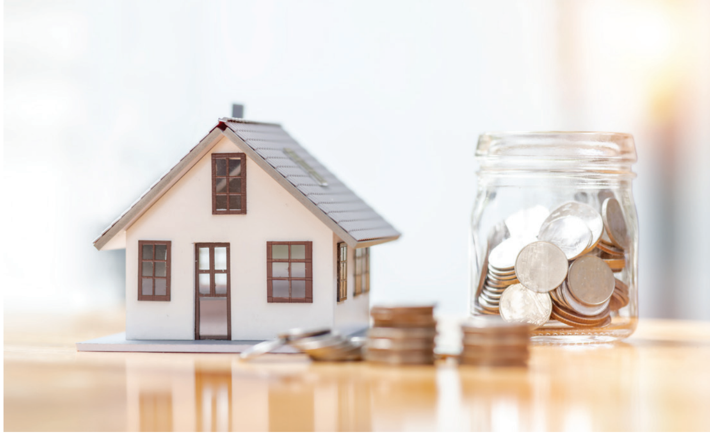
What is the Mortgage Interest Deduction?

The mortgage interest deduction is a tax incentive for homeowners. It may allow homeowners to reduce their taxable income by the amount of interest paid on the loan during the year.

For home mortgage interest to be deductible, the mortgage must be secured by your home (main home or a second home). The loan may be a mortgage to buy your home, or a second mortgage such as a home equity loan or home equity line of credit. You must itemize deductions on your tax return to claim the mortgage interest deduction.

Further, the loan proceeds must be used for purchasing, building, or substantially improving the home secured by the loan.

If the loan proceeds are partially used to buy, build, or improve a residence and partially used for other purposes such as paying for a child's education, then the interest is only partially deductible and must be prorated.



Limitation on the Amount of Mortgage Interest Tax Deduction

The 2017 Tax Cuts and Jobs Act reduced the size of the mortgage on which you can deduct interest and limited what you can deduct from your home equity loan debt.

For any loan originating on or after 12/15/2017, the total qualified home loan balance is limited to $750,000 ($375,000 for a married taxpayer filling separately).

For example, a taxpayer takes out a $500,000 mortgage in February 2022 to purchase an $800,000 primary residence. One month later, the taxpayer takes out a $250,000 home equity loan to put an addition onto the home. Both loans are secured by the home, and the total indebtedness does not exceed the cost of the home or exceed the $750,000 cap; therefore the home equity interest is deductible. If the home equity loan had been taken out to pay off student loans or credit card debt, the home equity interest would not be deductible.

Exceptions to the mortgage interest deduction limit are:

- A mortgage taken out on or before October 13, 1987, is grandfathered debt and is not limited in terms of the amount of the loan or how you use the loan proceeds. All the interest you pay is fully deductible. Interest on a refinanced mortgage is deductible up to the original mortgage balance, regardless of how the proceeds are used.

- A mortgage taken out after October 13, 1987, and before December 16, 2017, to buy, build, or substantially improve your home, up to $1 million ($500,000, if married and filing separately). Again, interest on a refinanced mortgage is deductible up to the original mortgage balance, regardless of how the proceeds are used.

- Any home that was purchased before April 1, 2018, is eligible for the $1 million limit – only if there was a binding contract entered before December 15, 2017.

Note: The dollar limits apply to the combined mortgages on your main home and second home for property purchased after October 13, 1987.

What Qualifies as Deductible Mortgage Interest?

Deductible mortgage interest includes the following:

Interest on the mortgage for your main home
You can have only one main home at any given time. This home can be a house, co-op, apartment, condo, mobile home, houseboat or similar property. However, the home must have basic living accommodations, including sleeping, cooking, and bathroom facilities.

Interest on the mortgage for a second home
You can use this tax deduction on a mortgage for a home that is not your primary residence as long as the second home is listed as collateral for that mortgage and the total mortgage balance(s) remains within the total.

If you rent out your second home, you must live in the home for more than 14 days or more than 10% of the days you rent it out – whichever is longer. If you have more than one second home, you can treat only one of them as the qualified second home for the purposes of mortgage interest deduction.

Mortgage points you have paid
Points usually cost roughly 1% of your mortgage amount. To qualify for the deduction, mortgage points must be paid at closing directly to the lender. In some cases, mortgage points can be deducted during the same year they are paid. If not, you generally deduct the interest paid ratably over the life (term) of the mortgage.

Interest on a home equity loan
Home equity loans come in two forms:

1. Closed-end credit, a home equity loan, and
2. Open-end credit, a home equity line of credit (HELOC)

A home equity loan is money borrowed from the equity you have in the home. For the interest you pay on a home equity loan to be deductible, the proceeds from the loan must be used to buy, build, or pay for home improvements to a primary home or a second home. Interest is only deductible on the first $100,000 of the loan.

What's Not Deductible

Mortgage interest isn't the only expense you'll incur when you purchase and own a home. Many people believe other expenses are tax-deductible, but they aren't. Here's a list of some of the most common expenses that are mistaken for being tax-deductible:

- Mortgage insurance premiums – you are no longer able to claim this itemized deduction for 2022.
- Homeowners Insurance
- Other closing costs, including title insurance
- Moving expenses (unless you're active-duty military)
- Deposits, down payments or earnest money you forfeited
- Interest accrued on a reverse mortgage. Since you don't pay interest until the loan comes due, you can't get a deduction on something you aren't paying yet.
- Any payments made while living in the home before the purchase was finalized. These payments are considered rent.

Can I Deduct my Mortgage Interest?

The Tax Cuts and Jobs Act increased the standard deduction and reduced the value of certain itemized deductions. These changes significantly reduced the percentage of taxpayers itemizing deductions.

The home mortgage interest deduction only applies if you itemize your deductions — and for most people, it doesn't make financial sense to do so. Most homeowners will save money at tax time by taking the standard deduction instead of itemizing.

The Bottom Line

Consult your financial advisor or tax professional to get more assistance filing your 2022 tax return. They can provide even more information about your mortgage interest deduction and help you decide what to deduct based on your loan and your financial situation.

Contact Jenny Gan at jgan@pgbank.com or (908) 331-9653 with any questions.

What is New for Tax Season?

By Patricia Daquila, MBA, CPA, CFP®

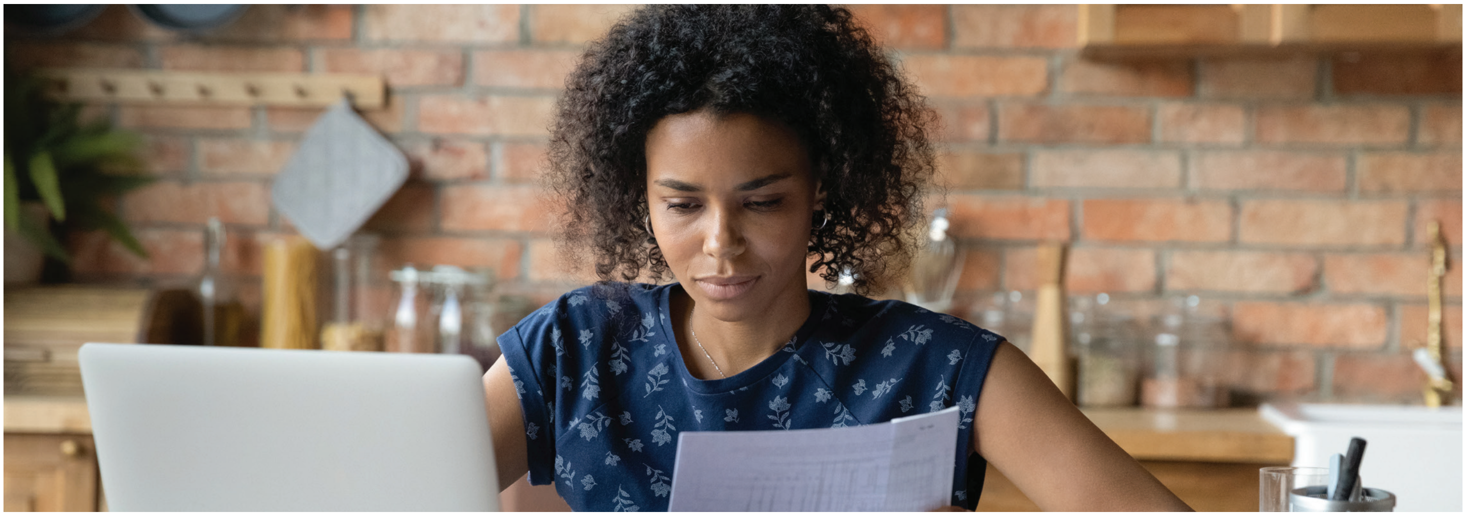
It is that time of the year again, tax season! Whether you love it because of a large refund or you dread it because you owe money, we all must prepare for the tax deadline. This year it is April 18, which gives you three more days to file your 2022 tax return. What do you need to do and what has changed? We will address some of the key changes with the SECURE 2.0 Act and how you can get ready for this tax season.

President Biden signed the SECURE 2.0 Act into law on December 29, 2022. There are some key changes that impact retirement planning. However, many of the changes do not take effect until future years.

One major change is that starting in 2023, the age to begin your required minimum distribution is changing from 72 to 73. In 2033, the age to start your required minimum distributions (RMD) will be raised to 75. The required minimum distribution, or RMD, is the amount you must withdraw from your qualified retirement accounts each year. Qualified retirement accounts include IRAs, 401(K)s and 403(B)s. An advantage in delaying the age to 73 to begin your RMD is you have more time to convert assets from your IRA to a Roth IRA. There are clear advantages to why you may want to convert to a Roth IRA. Two major benefits are that the Roth IRA has no required RMDs, and the earnings grow tax free. Also, when you do take a distribution, the distribution is not taxed!

Timing matters in converting a regular IRA to a Roth IRA. A good time to convert may be early in your retirement years, when you have stopped working, you are not yet subject to your RMD distributions, and you have not started collecting Social Security. Therefore, your taxable income will be low relative to your cash flow.

Another change resulting from the SECURE 2.0 Act, is that it adds a special employer retirement plan catch-up contribution for employees who are age 60 to 63 beginning in 2025. The current catch-up contributions for workers aged fifty or older is $7,500 in 2023. A catch-up contribution allows you to put away additional earnings pretax in a retirement account, because you are getting closer to retirement. The special contribution that the act provides in 2025 is for workers who are age 60 to 63. The amount of the special contribution is the greater of $10,000 or 150% of what the standard catch-up contribution will be in 2024. The $10,000 will be adjusted for inflation each year. For instance, if the regular catch-up contribution remains $7,500 next year, the 2025 special contribution will be $11,250.



Another change regarding the catch-up begins in 2024. All eligible workers with wages over $145,000 in the previous year must deposit their catch-up contributions into a Roth (after tax) account. These individuals would no longer be able to reduce their taxable income with their catch-up contributions because Roth contributions are made with after-tax dollars. The income threshold for this provision will be adjusted annually for inflation.

Now that we covered some of the main provisions of the SECURE 2.0 Act, what can you do to get ready for your appointment with your tax preparer for your 2022 taxes? Here are some tips that may help you get organized.

After you have received all your documents such as your 1099s, W-2s, 1099Rs and 1098s, open the envelopes, then sort the documents according to what type they are. Do not bring a shoe box of unopened documents that includes every piece of paper that you received during the year. This just wastes the tax preparer's time.

Prepare a list of your medical expenses and charitable contributions for your CPA. As a reminder, if you made a charitable contribution over $250, the charity is required to provide you with a written acknowledgement. The more organized you present your materials, the easier it is for the tax preparer to do your return. Get your information in as early as possible. However, wait to send it in until you have all the information necessary to prepare your return. It can be extremely frustrating for a tax preparer to receive information in dribs and drabs. Also, if your tax preparer contacts you with open items or questions, respond to their requests as soon as possible. The sooner that you respond, the sooner they can finalize your tax return, making tax filing simple as possible for both of you. You have until April 18 to make your 2022 IRA contribution and until the filing date of your return for your SEP or your self-employed 401k.

It may be too late for the 2022 tax year, but here are a few steps that you can take in 2023. It is a good time of the year to increase your contributions to your retirement accounts such as your 401K or your 403B. In 2023, you can contribute up to $22,500 for individuals under 50 and an additional $7,500 catch-up for those 50 and older into your 401k or 403B. In addition, you may want to consider "bunching" your charitable contributions into one tax year. Therefore, the increase in contributions may allow you to itemize your deductions instead of taking the standard deduction, which is $27,700 for married filing jointly in 2023. One way to implement this strategy is to open a donor advised fund. You can even transfer appreciated securities into the donor advised fund.

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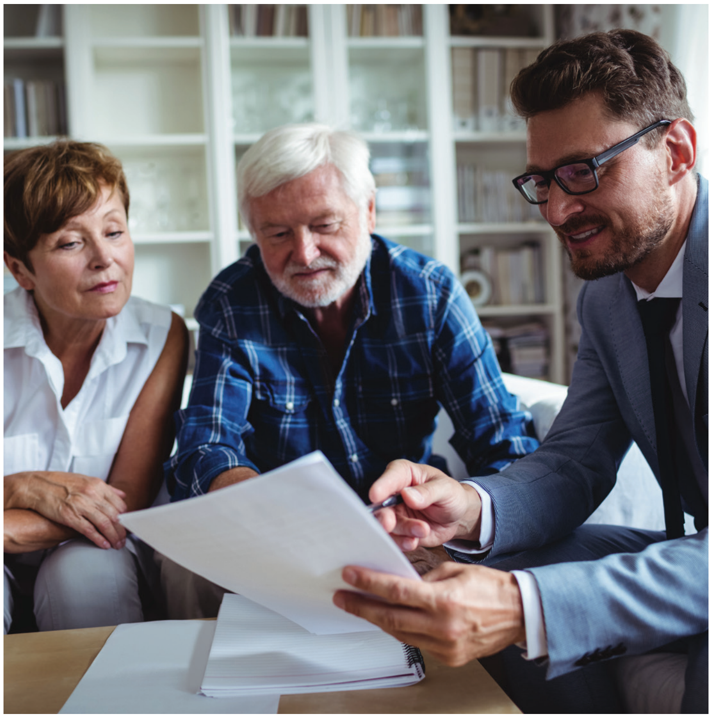
Also, you may want to consider increasing your savings to your HSA account if you are eligible. To contribute to a HSA, you must have a high deductible medical plan. This will reduce your taxable income and save for your future medical expenses. The maximum amount that you are allowed to contribute towards your HSA in 2023 is $3,850 for self-only coverage and $7,750 for family coverage. Unlike an FSA, you do not need to spend your HSA in one tax year. You may choose to use it all in one year or you can save the money in your HSA for medical expenses in years to come. These a just a few of the strategies that you can implement this year to save in taxes. Good luck with tax season!

Contact Patricia Daquila at pdaquila@pgbank.com or (908) 642-6029 with any questions.

How Do I Create a "Retirement Paycheck?"

By Cynthia Aiken, MBA, CFP®



"Yikes! I'm retiring. How do I manage to pay the bills without a regular paycheck?" Whether you have finally reached the end of your regular employment by counting down to your targeted retirement age or you abruptly find yourself in early retirement due to personal illness or a company downsize, you are faced with the question of how to manage your finances without a steady paycheck every week, two weeks or month.

For those retiring early, this concern may be heightened if you are still paying a mortgage or tuition. Furthermore, if you are under age sixty-five, you will need to cover the full cost of health insurance until you are eligible for Medicare.

Will I still be able to pay my bills and live the life I want in retirement? How can I withdraw funds from savings without endangering my long-term financial security? How will my taxes change in retirement? What are the tax implications of withdrawing funds of my various investment accounts?

Take a breath. There are strategies to help you create your "retirement paycheck." By working with your financial planning professional and your tax advisor, you can identify an income stream to support your financial needs in retirement.

First and foremost, you will need to identify your income and expenses. Make a list of your ongoing annual living expenses, periodic larger expenses like car purchases and significant lifetime expense such as a wedding, home renovation, second home purchase and major charitable gifts. Don't forget to include your health insurance costs before you qualify for Medicare, as well as your Medicare Part B premiums and Supplemental Policies once you are on Medicare. Additionally, you will need to identify your sources of income such as Social Security benefits, pensions, severance package, and your taxable and retirement investment accounts.

Some key factors that will influence which strategy or strategies that are most appropriate for you include:

- **Tax Efficiency –** If you have tax-deferred accounts (401(k) s and IRAs), tax-free (Roth plans) and taxable investment accounts, you will need to determine which type of account to utilize in order to maximize tax efficiency and when to tap it.

- **Guaranteed Income –** You will likely receive Social Security benefits and you may be fortunate enough to receive pension or annuity payments. When should you start these income streams? What will the tax consequences be when you begin receiving them?

- **Required Minimum Distributions –** If you have tax-deferred retirement accounts, the federal government will require you to take annual distributions starting at age 72, 73 or 75 depending upon your date of birth. It is important to think through your cash flow needs and the tax result of distributions from these accounts.

- **Investment Strategy –** Some retirees will look to interest and dividend income and others will use a total return approach of income and appreciation to support their retirement paycheck. The size of your investment portfolio and your cash flow needs will factor into the investment strategy you use.

- **Logistics –** To simulate a retirement paycheck, you will need to coordinate depositing/transferring funds into your checking account, so you are ready to pay bills.

Four typical strategies that retirees use to create their retirement paycheck include:

Interest and dividend income are common sources of funds for your retirement paycheck. By combining bond interest with dividends from stocks and REITs, you could create a consistent payout without selling investments, thus leaving the principal intact. However, your portfolio may not generate sufficient income to support your cash flow needs. Also, bond interest income has been extremely low in recent years and dividends are not guaranteed and may fluctuate.

Using a total **return investment approach**, your portfolio consists of equities and fixed income securities. To create your retirement paycheck, you will make periodic withdrawals from your portfolio – selling equities, bonds or a mix of both depending upon their respective performance. This approach is best managed by an investment professional.

Another retirement paycheck strategy entails owning an **annuity**. Whether you purchase an immediate annuity or a deferred annuity, this financial instrument provides you with a guaranteed monthly payment for life. It is similar to Social Security benefits as a lifelong payment stream, but it is paid by an insurance company, not the federal government. Although an annuity can be an attractive way to create your retirement paycheck, please keep in mind that once you purchase an annuity, you give up control of your money. When you pass away, the monthly payments stop, and your heirs receive nothing from this source. Furthermore, annuities with payments that adjust for rising inflation are very expensive.

The **bucket** strategy links three different types of accounts (buckets) with three different time frames. Bucket one would hold funds in highly liquid accounts such as checking or savings accounts and money market funds or certificates of deposit (CDs) and would supply retirement paychecks for the next three years. Bucket two would hold fixed income securities with maturities of four to six years to satisfy your retirement paychecks during that time frame. Lastly, bucket three would hold long-term investments in equities and fixed income securities to provide investment growth and long-term cash flow needs. As the balance of bucket one is reduced, funds would be transferred into it from bucket two and the same from bucket three to bucket two. This strategy of keeping up to three years of net expenses in a near cash instrument is comforting to many retirees and helps them cope when the stock and bond markets are volatile.

Every client situation is unique and there is no one size fits all solution for creating a retirement paycheck. Using the information about your income, expenses, and assets, your financial and tax advisors can help you determine an appropriate strategy or mix of strategies to create your retirement paycheck. Including your finance and tax professionals in this conversation will ensure that all tax and investment implications are fairly considered.

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Planning for the End-of-Life

By Claire E. Toth, JD, MLT, CFP®

Maybe you've gotten the diagnosis, maybe you've seen too many friends meet untimely ends, or maybe you're hitting a milestone birthday. Whatever brings to you face to face with your own mortality, you'll want to ensure your own end—and its aftermath—is as stress free as possible for you and your loved ones. That takes some planning. End-of-life planning can be difficult to consider, but taking these steps empowers you to leave on your own terms and is a future gift to your loved ones. Particularly when so much seems beyond your control, this is one area where you can be in charge.

Have the Conversation

Talking about death is hard. It's probably morbid, and it can be upsetting. Just remember the death rate on earth is one hundred percent, and if you don't make—and communicate—your end-of-life decisions, someone else will decide for you. This doesn't have to a be a single big conversation; it can be a series of small ones. Guides exist to get you going: Conversation-Starter-Guide.

Review Your Estate Plan

First, be sure your estate plan does what you want it to—that your assets go where you want them, either outright or in trust. Remember that retirement accounts (including IRAs), insurance policies, and annuities are governed by their beneficiary designations, not by your will. Ensure those are up to date. Other assets do not need named beneficiaries. In fact, putting beneficiaries on non-retirement bank and brokerage accounts can play havoc with your estate plan.

If specific assets should go to specific people, ensure those are identified and listed properly. This may be family jewelry, art, antiques, and the like. For example, New Jersey allows you to make gifts of specific items in a letter apart from your will; New York requires those gifts to be in your will. States that allow these gifts in a separate letter have detailed rules about what is required; check with your estate planning attorney to be certain you are doing it correctly.

Be sure the persons named as your fiduciaries—your Power of Attorney, your Executor, any Trustee—are who you want in that job, and tweak as necessary. If you are using a revocable trust, retitle financial accounts in your trust's name. If not, consider adding the Power of Attorney to your accounts now. Either way, this allows for a smooth transfer of power should you step back from managing your financial affairs.

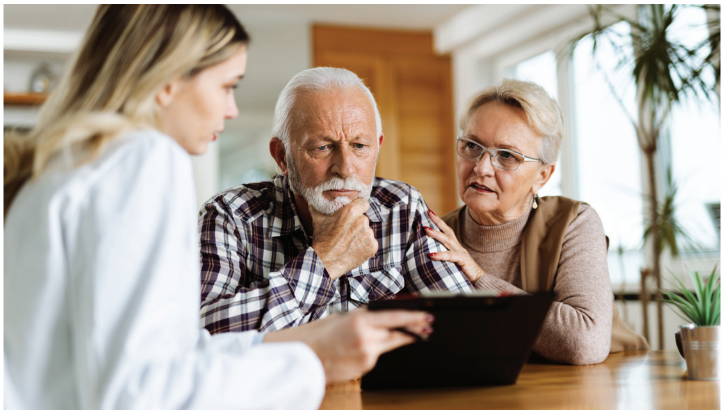
Clarify Your Medical Wishes

As part of your estate plan, you likely have a document (or sometimes multiple documents) titled Medical Directive, Living Will, or the like. This does three things. First, it sets forth your wishes about medical treatment should you be unable to communicate them; this is sometimes referred to as the "pull the plug" document. Second, it names someone to act on your behalf should you be unable to do so (your Health Care Representative). This person need not be the same person who handles your financial and legal matters, discussed above. Finally, it authorizes health care professionals to speak with your Health Care Representative, specifically referencing the Health Insurance Portability and Accountability Act (HIPAA). Without a specific reference to HIPAA, your doctors are not authorized to speak to others about your health care. You can authorize release to people beyond your Health Care Representative. For instance, you may name your spouse as your representative and authorize release of your health care information to your spouse and your children.

Your Medical Directive is a statement of intent; it is not an agreement between you and your doctor. That agreement is set forth in a Practitioner's Order for Life-Sustaining Treatment, or POLST. You and your doctor fill the POLST out together when you are facing a serious illness. The POLST becomes part of your medical orders and travels with you. This gives it more immediate authority than your Medical Directive. Here is a link to the New Jersey POLST.

Also, consider a Do Not Resuscitate (DNR) order. If you choose to have a DNR, it is most useful should the EMTs be called to your home. EMTs know to look in the freezer (yes, really) for a DNR. Keep it there (in a container, to safeguard it), with a note on the freezer door so stating. With EMTs rushing through your home, no one wants to be searching through desk drawers for medical orders.

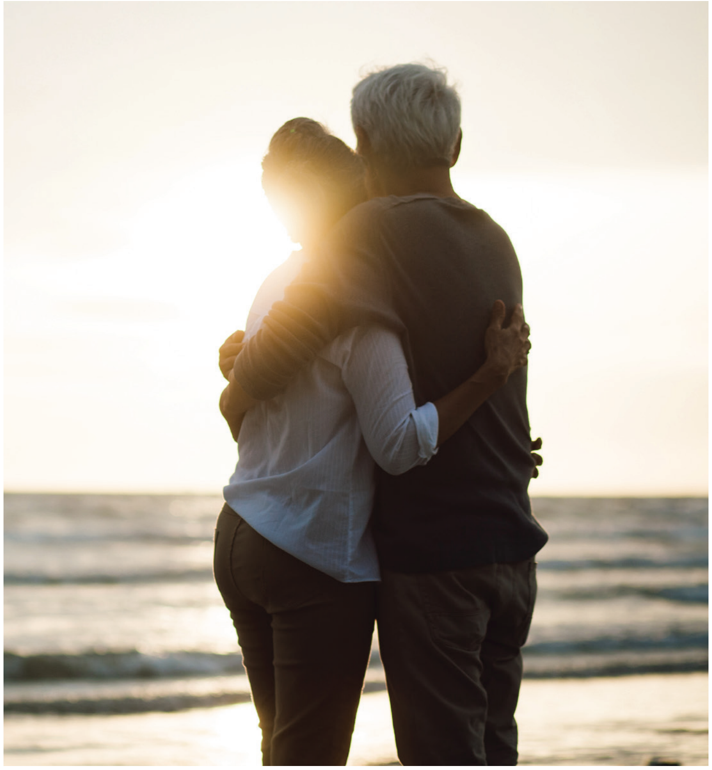
Finally, decide whether you want to participate in organ donation or donate your body to medical science. Organ donation is often handled with your driver's license. You must contact a medical school in advance to donate your body.



Organize Your Records

At some point, another person will step in and manage your assets. Make it easy. Many financial organizers exist; here is Peapack Private Wealth Management's. Let your family and fiduciaries know that it exists and where it is located. Keep files together and accessible. Most of this can be online if it's easier, but some documents (still) should be held as originals. These include birth, death, and divorce certificates, your passport, military discharge papers, your vehicle registrations, and your will (ideally, your attorney should hold that for you). Hold these documents in a secure location in your home, such as a fireproof lock box. That's faster and more convenient than a bank's safe deposit box.

Where possible, consolidate accounts. Roll out old employer retirement plans, move all investment accounts to a single custodian, reduce bank accounts. All too often, survivors are overwhelmed by the number of accounts they face.



Consider Your Living Situation

Particularly if your near-term future involves hands-on medical care, plan where you want to live and receive that care. Many people want to remain in their homes. Is that practical for you—is your house accessible, or can it be made so? Is there sufficient room for a full-time (or live-in) caregiver? Getting the right caregiver(s) is crucial if you remain at home.

Should you choose assisted living or a similar facility, begin your research and visits in advance of any move. Consider the services offered, the amenities, and the programming. Eat a meal, socialize with residents, try it on for size.

Also, have a plan to pay for housing, whether it's upgrades to your home, an entrance fee to a facility, or ongoing costs for a health care aide.

Decide How to Say Goodbye

Planning your own funeral may sound morbid, but your survivors will thank you for it. Grieving survivors will take comfort in having fewer decisions to make and in knowing you are remembered precisely the way you want to be. As the adult child of parents who planned this well in advance, I can testify it was a huge help when the time came. Consider prepaying for the service as well. Prepaid funeral funds are transferable, so a subsequent move won't tie your family's hands. Again, it is one less thing for them to deal with.

Along the same lines, consider writing your own obituary—at least the first draft. This is your opportunity to state for what you want to be remembered—whether for career accomplishments, volunteer endeavors, or that fifth grade science project.

None of this is easy. Thinking of it as a gift to your family and loved ones can make it easier for you to work through some of these tasks. There are blessings in this process.

Contact Claire Toth at ctoth@pgbank.com or (908) 598-1717 with any questions.

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