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Your Money Matters

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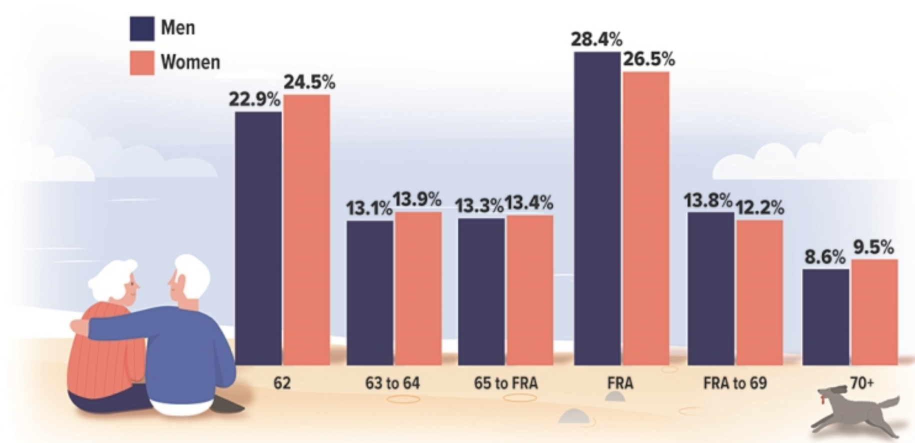
Happy tax season! It's that special time of year when people scramble to get their tax returns, extensions requests, and last minute IRA contributions in by April 15th .

In this edition of our quarterly newsletter, we include some important information for those procrastinators out there to help ensure that they get their taxes filed without any surprises before the clock runs out. Also included: trends in social security claiming age, tough times for home buyers, and the importance of having a succession plan for your family business.

Thank you for reading! For more from the SFG team, tune in to the MoneyTalk radio show weeknights at 7PM on WPRO. And for you podcast fans, find us by searching "Don Sowa's MoneyTalk" wherever you listen, and if you like what you hear be sure to leave a 5 star review to help others find the show!

When Do People Start Collecting Social Security?

There's no "right" age to begin receiving Social Security retirement benefits. It's a personal decision based on multiple factors, including how long someone wants to work and how much retirement income is needed. Workers are entitled to full benefits at their full retirement age (FRA) — 66 to 67, depending on year of birth. Claiming before FRA (as early as age 62) will result in a permanently reduced benefit, while claiming later will result in a permanently increased benefit due to delayed retirement credits, which can be earned up to age 70.



Source: Social Security Administration, 2023 (based on 2022 data)

Due Date Approaches for 2023 Federal Income Tax Returns

Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of your 2022 tax return and gathering W-2s, 1099s, and deduction records. You'll need these records whether you're preparing your own return or paying someone else to prepare your tax return for you.

Don't procrastinate. The filing deadline for individuals is generally Monday, April 15, 2024.

Filing for an extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 15, 2024) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

Due Dates for 2023 Tax Returns

Tax to do:

April 15, 2024

- [x] **Most taxpayers must file tax return and pay tax or file for 6-month extension and pay estimated tax**

June 17, 2024*

- [ ] **Taxpayers living (or serving in the military) outside the U.S. on April 15, 2024, must file tax return and pay tax or file for 6-month extension and pay estimated tax**

*Interest is due on taxes paid after the April filing date

October 15, 2024

- [ ] **Taxpayers who filed for an extension must file tax return and pay any additional tax**

Filing for an automatic extension does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the April filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

Note: *Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances, you are generally allowed an automatic two-month extension (to June 17, 2024) without filing Form 4868, though interest will be owed on any taxes due that are paid after the April filing due date. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.*

What if you owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible.

If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

Expecting a refund?

The IRS has stepped up efforts to combat identity theft and tax refund fraud. More aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, the IRS is required to hold refunds on all tax returns claiming the earned income tax credit or the additional child tax credit until at least February 15.

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a tax return. However, note that in recent years the IRS has experienced delays in processing paper tax returns.

So if you are expecting a refund on your 2023 tax return, consider filing as soon as possible and filing electronically.

Housing Market Trends: Are They Helping or Hurting the Economy?

In an unusual twist, U.S. home values climbed to an annual record of $389,800 in 2023, even as mortgage rates rose to the highest levels in a generation. The median price of existing homes rose 4.4% for the twelve months ended in December 2023 to reach $382,600. (Buying activity and prices tend to peak during the summer and tick back down when the market slows later in the year.)[1]

Near the end of October 2023, the average rate for a 30-year fixed mortgage climbed to a 23-year high of nearly 8%, before retreating a bit.[2] But despite sky-high borrowing costs, buyer demand exceeded the supply of homes for sale.

As a result, sellers generally fared well, but 2023 was a challenging year for would-be homebuyers.

A market in limbo

Rising mortgage rates and home prices made it harder to afford a home, causing many buyers to be priced out of their favorite neighborhoods and forcing others out of the market altogether. In August 2023, housing affordability dropped to its worst levels since 1985.[3]

Many people who already own homes have been reluctant to sell and move because they would have to finance their next homes at much higher rates than they currently pay — a conundrum that has worsened the inventory shortage.

This persistent lack of inventory combined with low affordability has cut deeply into home sales. For all of 2023, existing home sales fell to the lowest level in nearly 30 years (4.09 million).[4] An estimated 668,000 new homes were sold in 2023, an increase of 4.2% from the previous year, but new construction accounts for less than 15% of the total market.[5]

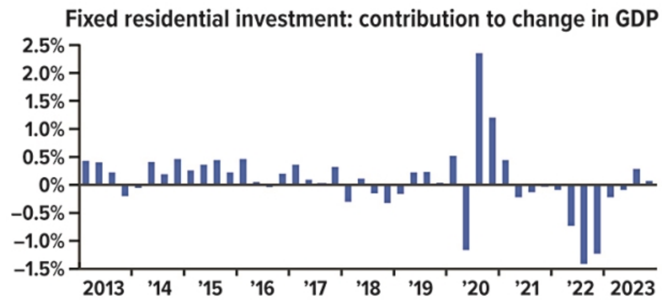
Housing and GDP

Housing contributes directly to the nation's gross domestic product (GDP) in two ways: spending on housing services and residential fixed investment. Housing services include rental payments, imputed rent (the estimated rental value of owner-occupied homes), and utility payments. Residential fixed investment includes new home construction, residential remodeling, production of manufactured homes, and brokers' fees. In the fourth quarter of 2023, housing accounted for $4.4 trillion of U.S. GDP on a seasonally adjusted annual basis or 15.9% (12.0% for housing services and 3.9% for fixed residential investment).[6]

New home construction stimulates local economies by creating higher-wage jobs and boosting property tax receipts. Nationally (and locally), it benefits other types of businesses as well, by spurring production and hiring in industries that provide raw materials like lumber or that manufacture or sell building tools, equipment, and home components such as windows, cabinets, appliances, and flooring. That's why the Census Bureau's report on housing starts, which were up 7.6% from the previous year's level in December 2023, is considered a leading economic indicator.[7]

Home Building Stages a Recovery

In Q3 2023, fixed residential investment added to U.S. GDP for the first time since Q1 2021. But in Q4, an increase in new residential structures was mostly offset by a decrease in brokers' fees.



Source: U.S. Bureau of Economic Analysis, 2024

Consumers are the key

The health of the housing market can also affect economic activity in other industries indirectly. For example, the "wealth effect" refers to how shifts in home prices, up or down, can influence consumer finances, confidence, and behavior. When home values and equity are rising, consumers who own homes tend to feel wealthier and may be more comfortable spending their money.

The "transaction effect" describes the increase in consumer spending that typically occurs when people move into new homes, which tends to generate demand for goods and services such as appliances, furniture, electronics, home improvement, and landscaping. On the other hand, extremely low affordability might influence younger consumers in a different way. When buying a home seems unattainable, it may cause them to give up on saving for that goal and shift to spending on other things.

Given housing's importance to the economy, there is some concern that a prolonged period of high rates could continue to constrain home building and sales, cause home prices to fall, and damage consumer confidence. When the Federal Reserve begins to cut interest rates, mortgages should gradually follow suit, but that's not likely to happen until GDP growth slows and inflation is no longer seen as the larger threat.

1, 4) National Association of Realtors, 2024; 2) Freddie Mac, 2023; 3) National Association of Realtors via Haver Analytics, 2023; 5, 7) U.S. Census Bureau, 2024; 6) U.S. Bureau of Economic Analysis, 2024

Why Family Businesses Should Have Succession Plans

In recent years, the family drama surrounding an aging media mogul — and his unresolved succession plans — have been at the center of a hit television show. For family businesses, succession plans are designed to ensure the orderly transfer of ownership and leadership to the next generation. But relationships among family members are sometimes just as complicated in real life as they are on TV and monetizing a closely held business to help fund retirement often takes longer than expected.

In fact, only 34% of family businesses have a robust, documented, and communicated succession plan in place.[1] Much like the fictional billionaire in "Succession," some leaders avoid the issue because they love running their businesses and don't want to stop any time soon.

But one never knows what the future has in store. Even if you are happy, healthy, and determined to stay involved in your business for years to come, you might be glad you took the time to develop a thoughtful succession plan.

Set a target

It might be wise to have a realistic retirement date in mind. Any effort to identify and groom a successor might take longer than you expect. And if you plan to sell your company, it could take several years to find a qualified buyer, begin the ownership transition, and finalize the transaction. To get the best possible price and terms, you may need to focus on improving the company's balance sheet before you put it on the market.

Stage your exit

Keeping your business in the family may be an easy decision if an adult child or another relative is capable, willing, and prepared to take over. If so, finding ways to reduce the value of the business on paper could help you gift ownership shares with fewer tax consequences.

Otherwise, it may be possible to sell your business to co-owners, outsiders, or even your own employees. Closing and liquidating the assets could be the only viable option for some businesses.

Invest for retirement

Making annual retirement plan contributions with some of your profits can build wealth outside of your business and help insulate your personal financial picture from risks associated with your business's distinct market. Building a separate investment portfolio might also provide greater flexibility during and after a transfer of ownership.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

1) US Family Business Survey, PwC, 2023
