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Now is a great time to buy I-Bonds directly from the United States Treasury. Purchasing on or before April 28, 2022, you will lock in the current interest rate of 7.12% for the first six months and then will gain the new May 1<sup>st</sup> semiannual rate of 9.62% for your next six months. This I-Bond will earn interest at an 8.37% annual rate for the first year! I-Bonds are guaranteed by the Federal government and interest earned (which is tied to inflation) can be deferred and is not taxable at the state level. I-Bonds are purchased online at Treasurydirect.gov so you must establish an account online and there is a \$10,000 maximum per year, per person limit. Spouses can each purchase \$10,000 worth of I-Bonds per year and if you have a trust that could be an additional \$10,000. You cannot cash in your I-Bond within the first year and if you redeem within five years you do lose your last three months of interest. I-Bonds are currently a great addition to the bond component of your portfolio.

## Inflation Cuts into Wage Gains

Driven by labor shortages, median hourly wages increased at an annual rate of 5.2% in December 2021, the highest level since June 2001. However, inflation cuts into buying power, and *real wages* — adjusted for inflation — actually dropped as inflation spiked in 2021. By contrast, negative inflation (deflation) during the Great Recession sent real wages skyrocketing temporarily even as non-adjusted wage growth declined.



Sources: Federal Reserve Bank of Atlanta, 2022, and U.S. Bureau of Labor Statistics, 2022, data 1/2001 to 12/2021. (Wage growth is calculated by comparing the median percentage change in wages reported by individuals 12 months apart; real wage growth is calculated by subtracting CPI-U inflation from wage growth.)

# ETFs Are Gaining on Mutual Funds: Here's Why

Investor demand for exchange-traded funds (ETFs) has increased over the last decade due to some attractive features that set them apart from mutual funds. In December 2021, almost \$7.2 trillion was invested in more than 2,500 ETFs. This is equivalent to 27% of the assets invested in mutual funds, up from just 9% in 2011.<sup>1</sup>

## Fund Meets Stock

Like a mutual fund, an ETF is a portfolio of securities assembled by an investment company. Mutual fund shares are typically purchased from and sold back to the investment company and priced at the end of the trading day, with the price determined by the net asset value (NAV) of the underlying securities. By contrast, ETF shares can be traded throughout the day on stock exchanges, like individual stocks, and the price may be higher or lower than the NAV because of supply and demand. In volatile markets, ETF prices may quickly reflect changes in market sentiment, while NAVs — adjusted once a day — take longer to react, resulting in ETFs trading at a premium or a discount.

## Indexes and Diversification

Like mutual funds, ETFs may be *passively managed*, meaning they track an index of securities, or *actively managed*, guided by managers who assemble investments chosen to meet the fund's objectives. Whereas active management is common among mutual funds, most ETFs are passively managed.

Investors can choose from a wide variety of indexes, ranging from broad-based stock or bond indexes to specific market sectors or indexes that emphasize certain factors. This makes ETFs a helpful tool to gain exposure to various market segments, investing styles, or strategies, potentially at a lower cost. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

## Tax Efficiency

Investors who own mutual fund shares actually own shares in the underlying investments, so when investments are sold within the fund, there may be capital gains taxes if the fund is held outside of a tax-advantaged account. By contrast, an investor who owns ETF shares does not own the underlying investments and generally will be liable for capital gains taxes only when selling the ETF shares.

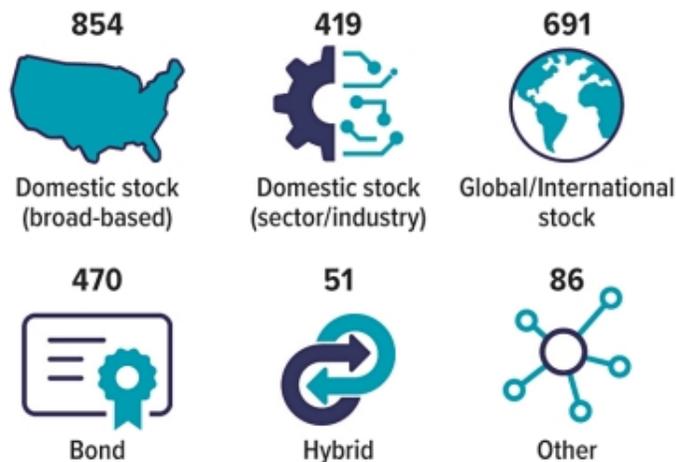
## Trading, Expenses, and Risks

ETFs typically have lower expense ratios than mutual funds — a large part of their appeal. However, you may pay a brokerage commission when you buy or sell shares, so your overall costs could be higher, especially if you trade frequently. Whereas mutual fund assets can usually be exchanged within a fund family at the end of the trading day at no cost, moving

assets between ETFs requires selling and buying assets separately, which may be subject to brokerage fees and market shifts between transactions.

## Plenty of Choices

### Number of ETFs by type of underlying investment



Source: Investment Company Institute, 2022 (data as of 12/2021). Bond funds are subject to the same inflation, interest rate, and credit risks as their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. A portfolio invested only in companies in a particular industry or market sector may not be sufficiently diversified and could be subject to higher volatility and risk. Investing internationally carries additional risks, such as financial reporting differences, currency exchange risk, and economic and political risk unique to the specific country. This may result in greater share price volatility.

Mutual funds typically have minimum investment amounts, but you can generally invest any dollar amount after the initial purchase, buying partial shares as necessary. By contrast, you can purchase a single share of an ETF if you wish, but you can typically only purchase whole shares.

The trading flexibility of ETFs may add to their appeal, but it could lead some investors to trade more often than might be appropriate for their situations. The principal value of ETFs and mutual funds fluctuates with market conditions. Shares, when sold, may be worth more or less than their original cost. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in any index.

*Exchange-traded funds and mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

<sup>1</sup>) Investment Company Institute, 2022

# Key Retirement and Tax Numbers for 2022

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2022.

## Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2022 is \$16,000, up from \$15,000 in 2021.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2022 is \$12,060,000, up from \$11,700,000 in 2021.

## Standard Deduction

Taxpayers can generally choose to itemize certain deductions or claim a standard deduction on their federal income tax returns. In 2022, the standard deduction is:

- \$12,950 (up from \$12,550 in 2021) for single filers or married individuals filing separate returns
- \$25,900 (up from \$25,100 in 2021) for married joint filers
- \$19,400 (up from \$18,800 in 2021) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2022 is:

- \$1,750 (up from \$1,700 in 2021) for single filers and heads of household
- \$1,400 (up from \$1,350 in 2021) for all other filing statuses

Special rules apply for those who can be claimed as a dependent by another taxpayer.

## IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$6,000 in 2022 (the same as in 2021), with individuals age 50 or older able to contribute an additional \$1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges (see *chart*). For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges (see *chart*). The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

## MAGI Ranges: Contributions to a Roth IRA

	2021	2022
Single/Head of household	\$125,000–\$140,000	\$129,000–\$144,000
Married filing jointly	\$198,000–\$208,000	\$204,000–\$214,000
Married filing separately	\$0–\$10,000	\$0–\$10,000

## MAGI Ranges: Deductible Contributions to a Traditional IRA

	2021	2022
Single/Head of household	\$66,000–\$76,000	\$68,000–\$78,000
Married filing jointly	\$105,000–\$125,000	\$109,000–\$129,000

Note: The 2022 phaseout range is \$204,000–\$214,000 (up from \$198,000–\$208,000 in 2021) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is \$0–\$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.

## Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$20,500 in compensation in 2022 (up from \$19,500 in 2021); employees age 50 or older can defer up to an additional \$6,500 in 2022 (the same as in 2021).
- Employees participating in a SIMPLE retirement plan can defer up to \$14,000 in 2022 (up from \$13,500 in 2021), and employees age 50 or older can defer up to an additional \$3,000 in 2022 (the same as in 2021).

## Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above \$2,300 in 2022 (up from \$2,200 in 2021) is taxed using the parents' tax rates.

# Raising Money-Smart Teens

As teens look forward to summer activities, especially those that cost money, the next few months might present an ideal opportunity to help them learn about earning, spending, and saving. Here are a few age-based tips.

## Younger Teens

In recent years, apps have proliferated to help parents teach tweens and teens basic money management skills. Some money apps allow parents to provide an allowance or pay their children for completing chores by transferring money to companion debit cards. Many offer education on the basics of investing. Others allow children to choose from a selection of charities for donations. Some even allow parents to track when and where debit-card transactions are processed and block specific retailers or types of businesses.

Most apps typically charge either a monthly or an annual fee (although some offer limited services for free), so it's best to shop around and check reviews.

## Older Teens

Many teens get their first real-life work experience during the summer months, presenting a variety of teachable moments.

**Review payroll deductions together.** A quick review can be an eye-opening education in deductions for federal and state income taxes, and Social Security and Medicare taxes.

**Open checking and savings accounts.** Many banks allow teens to open a checking account with a parent co-signer. Encouraging teens to have a portion of their earnings automatically transferred to a companion savings account helps them learn the importance of "paying yourself first." They might even be encouraged to write a small check or two to help cover the expenses they help incur, such as Internet, cell phone, food, gas, or auto insurance.

**Consider opening a Roth account.** A teen with earned income could be eligible to contribute to a Roth IRA set up by a parent — a great way to introduce the concept of retirement saving. Because Roth contributions are made on an after-tax basis, they can be withdrawn at any time, for any reason.

Roth IRA earnings can be withdrawn free of taxes as long as the distribution is "qualified"; that is, it occurs after a five-year holding period and the account holder reaches age 59½, dies, or becomes disabled. Nonqualified earnings distributions are taxed as ordinary income and subject to a 10% early-withdrawal penalty; however, if the account is held for at least five years, penalty-free distributions can be taken for a first-time home purchase and to help pay for college expenses, which may be helpful in young adulthood. (Regular income taxes will still apply.)

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## IMPORTANT DISCLOSURES

The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

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