Setting Sail
Fourth Quarter 2021

The State of Idaho is Returning Taxes to its Citizens

Yes, you read that right. This is not a joke. The impossible has happened. In May of 2021, Governor Little signed House Bill 380, which created a tax rebate for full-time residents. To be eligible for this rebate, taxpayers need to be a full-year resident in both 2019 and 2020 and file either a state tax return or a grocery credit return in both years. A full-year resident is defined as spending more than 270 days in the state or being domiciled in the state.

Although the filing deadline for 2020 state income taxes was April 15, 2021, or October 15, 2021 if an extension was filed, taxpayers have until December 31, 2021 to file their 2019 and/or 2020 state income tax returns to qualify for this tax rebate.

The amount of the rebate is based on information contained on the taxpayer's 2019 state income tax return. It is either $50 per taxpayer and each dependent or 9 % of the tax liability for the household, whichever is greater. Tax liability is the amount of taxes paid to the state for that tax year. In other words, after withholding, estimated tax payments, and final payments or refunds have been counted, it is how much of your money ended up in the state coffers.

For example, if Han & Leia filed as a married couple in 2019 and their tax liability was $1,500, they would receive a rebate of $135 (9% x $1,500). However, if they had filed with their dependent, Ben, their rebate would be $150 ($50 x 3).

The rebates will be sent via direct deposit for taxpayers who have received a refund by deposit for the 2020 tax year. If the state tax commission does not have the bank account information from the 2020 tax return, they will mail a check to the address used on the 2020 tax return. If you have moved since that time, you should send an email to RebateAddressUpdate@tax.idaho.gov with your full name, last four digits of your Social Security Number, previous address, and new address.

Setting Sail is written by **Alan S. Campbell, MBA, CFP®** and published quarterly by **Spinnaker Financial Advisors, LLC,** a Registered Investment Adviser. The firm provides ***fee-only*** wealth management services, including investment advisory and management services and comprehensive financial planning and consulting.

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To track the status of your rebate, the state has created an online tool found at tax.idaho.gov/rebate where you can enter your information to find out when your rebate will be sent to you. If you haven't filed your 2019 or 2020 tax returns, you should file them before December 31st to qualify for the rebate. In the event that you are not required to file a tax return, you should consider filing them or a grocery credit refund return for these years to receive your payment.

Back to Normal Doesn't Feel Like Normal

We all thought that 2020 would go down as the craziest, most unpredictable year of our lives. It probably was. But after the Covid-19 vaccines were released in early 2021, many of us expected and were looking forward to a return to normal. As it turned out, the most unpredictable year of 2020 led us right into the weirdest year of 2021. A world which, in some ways, resembled the good old days of 2019 and in many other ways felt like the twilight zone. May I offer a few examples?

As predicted by most public health officials, the rollout of the Covid-19 vaccines led to an immediate drop in cases, hospitalizations, and deaths. It looked like the pandemic was coming to an abrupt end in June here in the US until the Delta variant showed up in other countries and made its way here. Late summer and early fall have seen another wave of cases, hospitalizations and deaths that are now in decline. The end of the pandemic has been postponed.

We also learned this year that the global economy doesn't work like a light switch that can be turned off and then back on instantly. The global supply chain is working its way back to where it once was. However, this transitory period we find ourselves in has been quite unusual with supply shortages for all kinds of products. Consumers have grown accustomed to waiting six months for new furniture. Shortages of computer chips for automobiles have limited the number of new vehicles rolling off the assembly line which, in turn, has led to very high demand and prices for used cars.

The "Zoom Boom" has made a major impact on certain communities that are seeing an increase in people moving to their cities while maintaining their employment in another city. In smaller towns, this influx of new arrivals has created a lot of growing pains.

Around the country, many real estate markets have seen their largest increase in home values in decades. The combination of historically low interest rates, cash on hand for down payments, and a shortage of housing inventories at a time when we've been staying home more has thrown the housing market into a brave new world.

In the investment markets, the stock market has cooled off slightly in the past quarter but still remains much higher than the high water set just before the pandemic. With historically high values of stocks relative to earnings, some investors are wondering if the short-term future of stocks will be bleak. While there are no facts about the future, the long-term historical record has shown that patient and disciplined investors have been able to capture the long-term averages of investment markets.

Let's look back 50 years to 1971. That year, the earnings of the S&P 500 were $5.57. The cash dividend was $3.16. The index ended the year at 102. The current consensus estimate for earnings this year is $190, while the cash dividend is on track to finish around $60. At the end of September, the S&P 500 closed at 4,308. To summarize, in fifty years the earnings of the 500 largest US companies are up about 34 times, the dividend is up 19 times, and the index itself is up 42 times. Meanwhile, inflation is up 6.6 times over the same period.

However, those fifty years had plenty of opportunities to be anxious with new technologies, assets bubbles and recessions. From January of 1973 and October of 1974, the S&P 500 index declined 48%. Between March of 2000 and October 2002, the index was down 49%. Then, between October 2007 and March 2009, the same index fell 57%, the largest decline since the great depression.

Despite these huge setbacks, the market recovered every time to reach new highs. All one had to do to rake in these fabulous returns was to invest in stocks and stay invested in stocks no matter what the conditions were. It's a great recipe for beating inflation and meeting our long-term goals. Patient and disciplined investors were rewarded for sticking to their long-term plan. They didn't interrupt the compounding returns of their portfolios.

In unsettling or just plain odd times like these, it can be easy to predict declines that may or may not be just around the corner. If, and when, we do see a drop in stocks and our investment accounts, the concept of thinking long-term or not panicking may not calm us down. Perhaps the idea of not interrupting the compounding will stick. There is a lot of great compounding ahead of us. We just need to get out of the way.

Social Security Benefits Are Going Way Up in 2022

The Social Security Administration announced that retirees will receive a 5.9% increase in their Social Security benefits in January of 2022. This is the largest annual increase in benefits in nearly 40 years as the price of food, cars, housing, and other goods and services has risen in the past year. Seventy million Americans receive Social Security, and this comes as welcome news in this inflationary environment.

However, the cost of medical care has also increased, and Medicare Part B premiums will also be rising. The standard cost of Medicare Part B, which applies to taxpayers with income less than $88,000 or $176,000 for a married couple, is scheduled to increase $10 per month to $158.50. Most Americans who receive Social Security benefits and are also enrolled in Medicare Part B pay their premiums as a reduction in their Social Security benefits.

For those still working, the Social Security wage base will be increased from $142,800 in 2021 to $147,000 in 2022, an increase of only 2.9%. The wage base is the amount of wages or self-employment income that is subject to Social Security taxes. After a worker has surpassed that amount of income in a year, the tax no longer applies to additional earnings. This lower increase on the wage base is a result of lower increases in wages compared to consumer costs.

The Social Security and Medicaid tax rates remains the same in 2022. They are 6.2% for Social Security and 1.45% for Medicaid for both employees and employers. For self-employed individuals, the self-employment tax rate of 15.3% covers both the employee and employer sides of the taxes.

Some workers elect to receive Social Security benefits and keep working before their Full Retirement Age. Their income limit in 2022 will be increased from $18,960 per year ($1,580/mo) to $19,560 per year ($1,630/mo). Any earned income above these amounts will result in a penalty that will reduce the amount of Social Security benefits they receive. If 2022 is the year a worker attains their Full Retirement Age, they are allowed to earn $51,960 next year before their benefits are subject to a penalty. This would apply to workers who were born in parts of 1955 and 1956.

For most retirees, Social Security is a crucial component of their overall retirement plan. The decision of when to start benefits is an important part of retirement planning. We would be happy to help you with this important decision.

"The farther back you can look, the farther forward you are likely to see."

--Winston Churchill (1874-1965)
British Prime Minister, historian, author, and Nobel Laureate