LINDSEY
& WALDO
CERTIFIED PUBLIC ACCOUNTANTS
"You see the numbers, we look for the opportunities."

SPECIAL POINTS OF INTEREST:

- Sports betting, winning, and reporting
- Planning to NOT plan on Social Security
- The odds are against you
- Richard's latest reads
- Call-in times
- Referrals

INSIDE THIS ISSUE:

Taxing Times

Dedicated to helping our clients keep the money that belongs to them through a focus on tax.

VOLUME 14, ISSUE 11 NOVEMBER 2022

Big Sports, Big Bets, Big Money

Everybody loves a winner. That's why we feel so good when our favorite sports team wins. Now that another football season's underway, and the World Series is here, it's another big autumn for sports. You can put money on it.

Literally.

Less than five years ago, certain sports figures were being threatened with suspension for even APPEARING at collectibles events in which a sports betting company was a sponsor.

Now, there are pro league endorsed providers of sports betting (for those states in which it is legal … a list which is likely to eventually include ALL states for reasons of tax revenue).

Fueled by online sites, sports betting is bigger than ever. And if your pick hits it big, you'll probably be too busy dancing around to think about the taxman.

That would be a bad bet.

Win, place, and click

Not that you needed help losing your money, but where did all these sports betting websites come from, anyway?

In mid-2018, the U.S. Supreme Court pretty much struck down a long-time rule that almost completely banned commercial sports betting in most states. The sky suddenly became the limit for sites like DraftKings, FanDuel and many others. ***Billions*** have been wagered on these sites in just the past three years.

So, you have even more ways now to win a bundle or lose your shirt. That's where taxes come in.

Continued on page 3 ➦

The Proper Place for Social Security

What's the proper place for Social Security in a retirement plan? Aside from what I am writing about below, Social Security cannot be passed to heirs (notwithstanding spousal death benefits).

That's one disadvantage, but it's not the only one…

> *"When I look back on all these worries, I remember the story of the old man who said on his deathbed that he had had a lot of trouble in his life, most of which had never happened."* -Winston Churchill

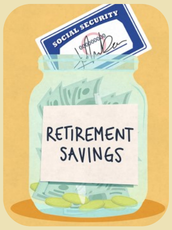
Imagine Bill Fredericks, born in 1948, who celebrated his 66th birthday in November 2014 was filing to collect Social Security at full retirement age. Bill's final salary was $50,000 per year, although when he started working in 1968, he was only earning $7,304 annually.

For 46 years, Bill had Social Security withheld from his paycheck. When he first started, the total Social Security tax was only 7.6%, which for Bill was $46.26 of his $609 monthly paycheck. On his last pay stub, the government

Continued on page 2 ➦

The Proper Place for Social Security*—continued from page 1*

collected 12.4%, or $516.67 of his $4,167 monthly salary.



Because Bill was not subject to the current 12.4% tax during his entire working career, his Social Security benefit will receive a more generous return than any of today's young people will receive.

Social Security tax is split into an employee portion and an employer portion. But, practically speaking for the employer, both portions are just additional costs of hiring the employee. Some say neither gross nor net wages would change if technically the employee or the employer were paying the entire amount.

Bill's lifetime Social Security taxes totaled $152,068. In today's dollars, it means Bill paid $260,163 to Social Security.

This qualified Bill to receive $24,180 a year, just under half of his former salary. When he dies, **only if Bill has a surviving spouse, whose earnings record was smaller than his, will this benefit survive him.**

Many have said that Social Security is a perfectly suitable option for a real retirement account. But, the real test is what would have happened had Bill been allowed to keep his Social Security benefit and invest it in a private IRA account.

I got some help and computed this hypothetical return in an age-appropriate portfolio between the S&P 500 Stock Index and the US Aggregate Bond Index. With only a monthly contribution of his Social Security taxes. By age 66, Bill's portfolio would have grown to $1,431,487.

With a safe withdrawal rate at age 66 of 4.43%, this IRA would give Bill an income of $63,415 per year rising with inflation. On average, this withdrawal rate would be sustainable until Bill's 101st birthday. But, at his average life expectancy at age 84, he would leave an estate that would still be over a million dollars in today's dollars.

Social Security offers Bill only $24,180 a year, half of his former salary. In contrast, (according to my simple math) his IRA account would allow him to retire with $1.4 million, and a 27% raise, as well as leaving a legacy for his heirs. (*Mild disclaimer here -- these are based on average returns, and do not constitute a "guarantee"*.)

According to my calculations, it seems pretty clear that workers under age 60 should tilt heavily toward stock investments. Even if Bill had blindly invested in 40% bonds, his portfolio would still have grown to $1,186,472 -- a yearly income of $52,561, rising with inflation.

Social Security should be seen as an option of last resort for today's workers. The unfortunate fact is that every 46-year investment horizon since Social Security was made law would have produced better returns had the withdrawals been invested privately. Even the Social Security withdrawals of average workers would produce millionaires if they were allowed to be saved and invested in private accounts.

That's why I recommend my clients, and their friends, to view Social Security as a tax, and not as a savings or retirement account. That way, we are able to not rely on it solely for our future lifestyle options, and can receive whatever benefit might remain in the future as a "bonus".

Even if peeling off a few hundred dollars per month (hopefully more!) might seem like a stretch at this point in your career, it is ***worth it*** to ensure that you don't have to subsist under a massive pay cut after your prime working years have completed.

The best part is that your future self will thank you! ※

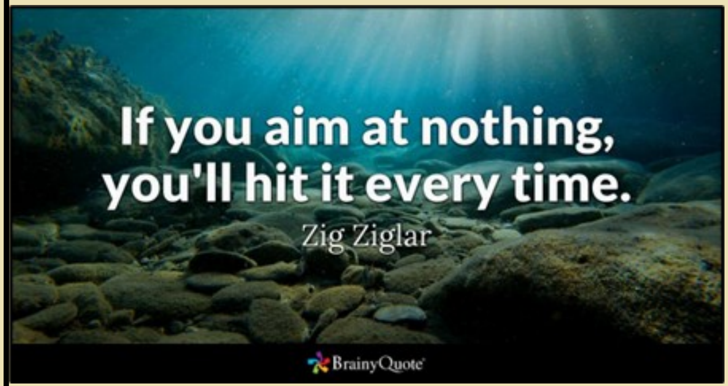
What I'm Reading...

NOW

I, Sniper by Stephen Hunter

RECENTLY

Somewhere in the South Pacific by John J. Gobbell
Healing Begins in the Kitchen by Ivan Misner PhD, Beth Misner, Eddie Esposito, with Miguel Espinoza MD
Black Sheep by David Archer



This month's special Member-Only call-in times for Lindsey's Insider's Circle will be 11/21/22 from 2:00 to 4:00 pm.

To schedule your appointment, contact Kristen at (251) 633-4070.

Not a member yet?
Find out how to become one TODAY!

Big Sports, Big Bets, Big Money —continued from page 1

Share your good fortune

Most people don't know how to report winnings and losses on their taxes – or even if they have to.

They do. That's a sure thing.

Whether you hit the lottery, filled the inside straight on video poker, or nailed the spread online in last Sunday's NFL action, *gambling winnings are taxable income*. Period. (Win a car or trip or something similar, by the way, and you have to figure its fair market value and pay tax on that.)

The place where you won the money is going to let the good folks at the IRS know and you'll be getting a federal Form W-2G. (The state taxman may get involved, too – check with us on this.) The IRS learned how much you won and when, the type of wager, and whatever taxes were already withheld.

Are you telling me I won 10 bucks at bingo and they told the IRS?

Keep your Andy Jackson for that one. Payers kick out a W-2G when you win twelve hundred dollars, or more, from a bingo game or slot machine; fifteen hundred, or more, from a keno game; or five grand and up from a poker tournament. For sports winnings, they'll let the IRS know if you won six hundred bucks and up if the amount is 300-plus times your "stake" (bet).

They withhold 24% for taxes. Ouch.

Anything that hasn't been withheld from your winnings already, you pony up when you file your tax return for that year. You report it as "other income" on your Form 1040 tax return – where you technically have to reveal all your income. The tax rate depends on your personal income tax and tax bracket that year.

As with all taxes you owe, if you don't pay, you can get socked with penalties and interest. Think bookies are tough? The taxman gets **very** serious about this…

The flip side

What if things go the way they normally do – and you lose?

When businesses lose money, they can often write the money off on their taxes. Same holds true for your gambling losses – to a point.

Your tax deduction for losses can't be greater than your winnings in a tax year. In other words, if you won five grand but lost six over the 12 calendar months, you can only deduct up to five thousand dollars. You eat the extra grand.

Two conditions: To deduct gambling losses you have to itemize your deductions and you must keep *detailed* records of your winnings and losses.

A different bet

Did you know some of the big betting sites have stocks that you can buy and sell? Yup, and they've doubled or tripled in value in the past three years. There are even exchange traded funds of gaming stocks, and they've also done very well. [*Though I should hasten to add that none of this is in any way financial advice!*]

Imagine that: a big return for betting on betting. You can always depend on other people's vices, right?

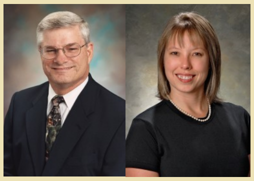
"Horse sense is the thing a horse has which keeps it from betting on people." - W.C. Fields ※

We Believe in Referrals

We really believe in the process of referrals, so part of the service we provide is to be sure to refer our clients and associates to other qualified businesspeople in the community.

Here, you'll find a list of areas in which we know very credible, ethical, and outstanding professionals. If you're looking for a professional in a specific area we've listed, please feel free to contact us. We will be glad to put you in touch with the people we know who provide these services.

Medicare Insurance Specialist
Digital Media Marketer
Attorney
Aflac Supplemental Insurance
Realtor
Mortgage Broker
Chiropractor
Bathroom Remodeler
Payroll Processor



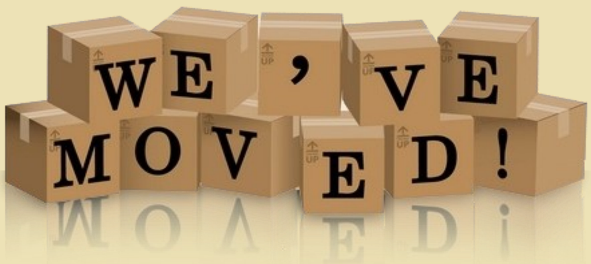
Christmas Decoration Installer
Printer
Business Insurance
Personal Chef
Life Insurance
Home Inspector
Financial Advisor
Travel Agent
Home Repair

LINDSEY & WALDO, LLC
CERTIFIED PUBLIC ACCOUNTANTS
4328 Boulevard Park S. • Mobile, AL 36609
P: (251) 633-4070 • F: (251) 633-4071
www.CPAMobileAL.com

PRSRT STD
U.S. POSTAGE
PAID
PERMIT NO. 206
MOBILE, AL

Just a reminder, or in case you haven't heard, we've officially moved to our new office! Come see us at:

**4328 Boulevard Park S.
Mobile, AL 36609**



To be removed from our mailing list, call/email us:
(251) 633-4070 or info@CPAMobileAL.com.

What Are the Odds?

Odds are, if I asked if you wanted to be financially independent at age 65, you'd say yes, or of course, or duh, or something equally profound. I'm sure there are almost certainly some out there who wouldn't answer affirmatively, but, I doubt they are reading this. Still, the odds are probably against you. Only 1 out of 20 people (5%) will be financially independent by age 65. Think of 20 people you went to high school with – only one of them will be financially independent.

Those are just the odds. So, out of your classmates, here's what's going to happen: 36% of you aren't going to make it to age 65. Don't know which ones won't, but those are the numbers from the Social Security Administration. Many of you are not going to make it to 65. I'm not trying to be a Debbie Downer. It is what it is. 54% of you will be dependent upon Social Security for your income. That alone should scare the living daylights out of you because there may not be Social Security for a lot of you reading this. By the time you get to retirement age, it could be bankrupt.

WHAT ARE THE ODDS

If you're approaching 65, you'll be okay. If you're a baby boomer, you're probably okay. If you're a millennial, Gen X, or Gen Y, or whatever, you might plan on making it on your own because there isn't enough to keep the system going the way it is. Another 5% won't be reliant on Social Security, but it'll provide a nice cushion, a safety net.

That's 95%, isn't it? Check my math, but I think so. 95%. One percent of you will be filthy stinking rich. I mean Donald Trump or Mitt Romney rich. The remaining 4% will be financially independent – meaning you can live off the income from your investments. It doesn't have anything to do with what your occupation is during your working years. Doctor, dentist, cabinet maker, it doesn't matter. It doesn't have anything to do with the economy. It doesn't have anything to do with what's going on in the world.

Why is that?

Those are the numbers. They have been valid since the Social Security Administration began keeping numbers. (Probably well before that even.) The numbers haven't changed. Think about all the things that have changed. From being earthbound to the moon in a little over half a century. From party lines to cell phones in about the same amount of time. But, these numbers haven't changed. They'll be valid a hundred years from now, as well.

So, assuming you make it to age 65, you're going to be in one of these groups:

Eighty percent will be living on a fixed income of some sort like trying to survive on Social Security. 15% will have some savings they can draw on to add to their fixed income. 4% will be financially independent and 1% will be wealthy.

So, if you want to become one of the 5%, you must have clarity of purpose and focus. You must have a detailed plan that is backed by commitment and self-discipline. That is your only hope of achieving financial independence. ※