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CHINA'S ECONOMIC PUZZLE

We're all accustomed to thinking of China as the fastest-growing economy in the world, but recent events have had global investors rethinking that story. At the start of the year, the Chinese stock market fell to five-year lows, and the economy is in the middle of a scary bout of deflation. Chinese stocks are selling at an aggregate PE of 7, compared with 22.2 for the U.S. S&P 500. Consumer prices are down roughly 1% from last year and deflation is predicted for this year as well.

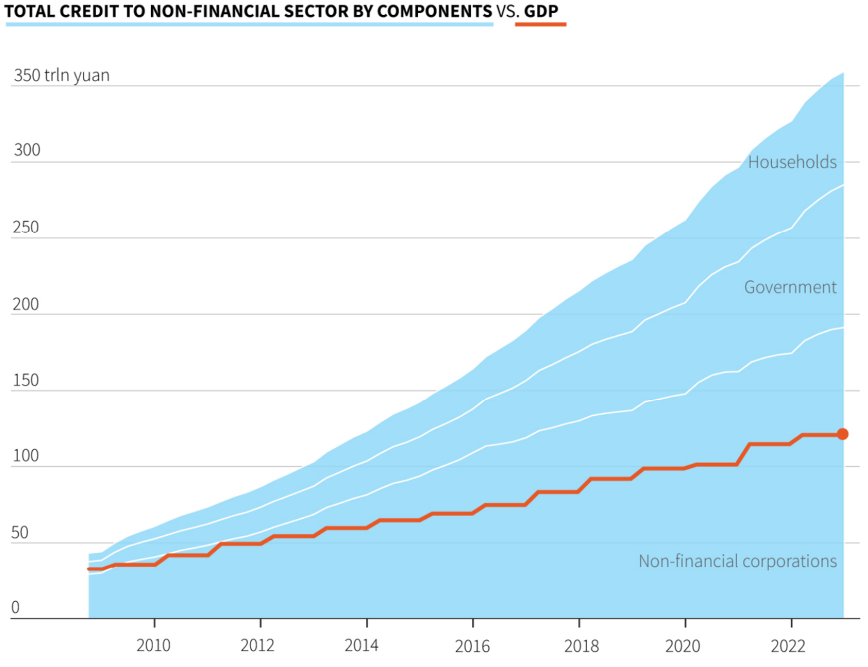
At the same time, home prices have declined at an 8.5% rate, and a series of defaults from over-leveraged developers has triggered a collapse in commercial properties. This is significant since so much of Chinese wealth is tied up in real estate.

In the past, the Chinese government has propped up economic growth with stimulus spending on infrastructure, to the point where the country now has super-fast train systems with excess capacity and gleaming skyscrapers sitting empty. The Chinese central bank recently cut interest rates by 100 basis points, hoping that would trigger more borrowing and spending, but total debt of 350 trillion yuan—three times the country's gross domestic product—makes you wonder how much more debt the nation's citizens, companies and government would be willing to take on.

The recipe for escaping a recession or even a depression is relatively clear: clean up the property sector, restructure municipal and developer-related debt and switch to an economic model that doesn't rely on ever-increasing amounts of debt-fueled stimulus spending. But nobody seems to expect the Chinese leadership to take drastic or even ambitious measures in those directions. Their goal, as one analyst put it, is to 'maintain social stability,' which can be translated to mean: staying in power regardless of the economic consequences.

China's mountain of debt

High capital investment is generating more debt than growth. China's debt was almost three times its GDP in 2022.



Note: Data through 2022. Credit to households include that to non-profit institutions serving households (NPISH).
Source: Refinitiv datastream; BIS | Reuters, July 17, 2023 | By Kripa Jayaram

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LEFTOVER ROLLOVER

Suppose you've been contributing to a 529 college savings plan, but your son or daughter doesn't use all the money for tuition, books etc. Do you just ask for the remainder of your money back?

Any contribution to a 529 plan is deemed to be a completed gift to the beneficiary—typically a child or grandchild of the donor. If you don't want to incur a gift tax, then you can contribute up to $18,000 a year, but you can actually make five years of contributions at once—$90,000—if you treat the contribution as if it was spread over a five-year period. (You would do this on IRS Form 709 for all five years). If you only want to contribute, say, $50,000, then you can apply $10,000 per year. After the contribution, the money grows income tax-free and can be used to pay qualified college expenses without being taxed.

But back to the first question; you have the money in the account, but now it looks like the son or daughter isn't going to use all of it. What do you do? You can indeed revoke the funds in the account, but that means they will be added back to your taxable estate, earnings will be taxable and the IRS will assess a 10% tax penalty.

You can roll the money from one 529 plan to another one, tax-free, so that it covers another son, daughter, grandson or granddaughter. That allows you to jump-start another child's or grandchild's college savings.

Finally, starting this year, you can transfer the stranded funds to a Roth IRA. There are restrictions. One of the most severe is that the 529 plan must have been maintained for at least 15 years, and the amount transferred must come from contributions and earnings made at least five years before the transfer. The Roth IRA must have the same beneficiary as the the 529 plan, meaning that the money can't go back to an account held by the parents, grandparents or other children. However, the owner of a 529 plan can change the beneficiary to another individual before the transfer.

In 2024, the aggregate amount transferred from the 529 plan to a Roth IRA for any individual cannot exceed $35,000. That means the transfer might not be a good option for parents whose child suddenly decides to forego college. But for leftover funds, the money that would have gone to pay for college can be used to pay for future retirement expenses instead—and preserve its income tax-free growth in the process.

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FEWER STOCKS, MORE PRIVATE EQUITY

It's not generally known that the number of publicly-traded stocks has fallen substantially, from more than 8,000 in 1996 to roughly 3,700 today. Does that mean that there are fewer companies today than there were three decades ago?

Actually not. Today, a growing number of companies are staying private, often owned, in whole or in part, by private pools of investment capital known collectively as private equity (PE). By one estimate, PE funds owned approximately 26,000 companies at the end of 2022, the most recent figures available. And some of the PE firms that have been buying companies have become the largest employers in America. Carlyle, KKR Private Equity and the Blackstone Group are the third, fourth and fifth-largest employers in America, right behind Walmart and Amazon.

PE firms finance themselves by raising capital from investors, and then use the money buy out publicly-traded companies and take them private, or firms that have never gone public in the first place. The goal is to cut costs, strip out assets and then eventually sell for a profit, sometimes to another PE firm. This structure is not very different from the infamous trusts of the 1910s and 1920s, which operated outside of regulatory scrutiny similar to the way PE-owned private companies today are not regulated the way public companies are. That earlier experiment didn't end well: there were well-publicized excesses, collapses, companies going out of business, bank runs and the Great Depression, among other things.

The PE firms are not just acquiring companies; a recent report found that three PE firms now own 11% of all the single-family homes for rent in Metro Atlanta—19,000 in all. The housing market in many American cities are adjusting to higher rents as for-profit firms buy up the available homes.

The trend has been to shift investment opportunities from what most investors are most familiar with—stocks—to blind pools managed by large firms who may not be long-term investors. Indeed the concern today is that PE firms are far more focused on maximizing short-term profits than they are at building the businesses they've acquired; on average, a PE firm expects to own a business for four to six years, and there have been reports that sound a lot like the corporate raider days of the 1980s, where firms were acquired, picked clean, and then abandoned into bankruptcy.

Another concern is leverage. Not all the money used to buy these firms is coming from investors; the funds have tended to borrow heavily to make their purchases, making them subject to collapse as interest rates rise and interest expenses become higher than the models predicted. Leverage can create oversized profits, but it can also come back to bite the over leveraged buyer.

What to make of all this? The first takeaway is that the stock market no longer represents the economy, and the disparity is increasing. But it's also possible that the publicly-traded companies that most of us invest in will tend to have longer-term visions for their firms than the short-term-focused PE buyers, which means their longer-term prospects might be better. We won't know how all this plays out for some years to come. But in the past, this same movie has not given investors—or the U.S. economy—a happy ending.

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KEY FINANCIAL DATA 2024

2024 Tax Rate Schedule				
Taxable income ($)	Base amount of tax ($)	Plus	Marginal tax rate	Of the amount over ($)
Single				
0 to 11,600		+	10.0	
11,601 to 47,150	1,160.00	+	12.0	11,600.00
47,151 to 100,525	5,426.00	+	22.0	47,150.00
100,526 to 191,950	17,168.50	+	24.0	100,525.00
191,951 to 243,725	39,110.50	+	32.0	191,950.00
243,726 to 609,350	55,678.50	+	35.0	243,725.00
Over 609,350	183,647.25	+	37.0	609,350.00
Married filing jointly and surviving spouses				
0 to 23,200		+	10.0	
23,201 to 94,300	2,320.00	+	12.0	23,200.00
94,301 to 201,050	10,852.00	+	22.0	94,300.00
201,051 to 383,900	34,337.00	+	24.0	201,050.00
383,901 to 487,450	78,221.00	+	32.0	383,900.00
487,451 to 731,200	111,357.00	+	35.0	487,450.00
Over 731,200	196,669.50	+	37.0	731,200.00
Head of household				
0 to 16,550		+	10.0	
16,551 to 63,100	1,655.00	+	12.0	16,550.00
63,101 to 100,500	7,241.00	+	22.0	63,100.00
100,501 to 191,950	15,469.00	+	24.0	100,500.00
191,951 to 243,700	37,417.00	+	32.0	191,950.00
243,701 to 609,350	53,977.00	+	35.0	243,700.00
Over 609,350	181,954.50	+	37.0	609,350.00
Married filing separately				
0 to 11,600		+	10.0	
11,601 to 47,150	1,160.00	+	12.0	11,600.00
47,151 to 100,525	5,426.00	+	22.0	47,150.00
100,526 to 191,950	17,168.50	+	24.0	100,525.00
191,951 to 243,725	39,110.50	+	32.0	191,950.00
243,726 to 365,600	55,678.50	+	35.0	243,725.00
Over 365,600	98,334.75	+	37.0	365,600.00
Estates and trusts				
0 to 3,100		+	10.0	
3,101 to 11,150	310.00	+	24.0	3,100.00
11,151 to 15,200	2,242.00	+	35.0	11,150.00
Over 15,200	3,659.50	+	37.0	15,200.00

Standard Deductions & Child Tax Credit	
Filling Status	**Standard deduction**
Married, filing jointly and qualifying widow(er)s	$29,200
Single or married, filing separately	$14,600
Head of household	$21,900
Dependent filing own tax return	$1,300*
Additional deductions for non-itemizers	
Blind or over 65	Add $1,550
Blind or over 65, unmarried & not a surviving spouse	Add $1,950
Child Tax Credit	
Credit per child under 17	$2,000 ($1,700 refundable)
Income phaseouts begin at AGI of:	$400,000 joint, $200,000 all other
Tax Rates on Long-Term Capital Gains and Qualified Dividends	
If taxable income falls below $47,025 (single/married-filing separately), $94,050 (joint), $63,000 (head of household), $3,150 (estates)	0%
If taxable income falls at or above $47,025 (single/married-filing separately), $94,050 (joint), $63,000 (head of household), $3,150 (estates)	15%
If income falls at or above $518,900 (single), $291,850 (married-filing separately), $583,750 (joint), $551,350 (head of household), $15,450 (estates)	20%
3.8% Tax on Lesser of Net Investment Income or Excess of MAGI Over	
Married, filing jointly	$250,000
Single	$200,000
Married, filing separately	$125,000
Exemption Amounts for Alternative Minimum Tax**	
Married, filing jointly or surviving spouses	$133,300
Single	$85,700
Married, filing separately	$66,650
Estates and trusts	$29,900
28% tax rate applies to income over:	
Married, filing separately	$116,300
All others	$232,600
Exemption amounts phase out at:	
Married, filing jointly or surviving spouses	$1,218,700
Single and married, filing separately	$609,350
Estates and trusts	$99,700

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Gift and Estate Tax Exclusions and Credits

Maximum estate, gift & GST rates	40%
Estate, gift & GST exclusions	$13,610,000
Gift tax annual exclusion	$18,000
Exclusion on gifts to non-citizen spouse	$185,000

Education Credits, Deductions, and Distributions

Credit/Deduction/ Account	Maximum credit/ deduction/ distribution	Income phaseouts begin at AGI of:
American Opportunity Tax Credit/Hope	$2,500 credit	$160,000 joint $80,000 all others
Lifetime learning credit	$2,000 credit	$160,000 joint $80,000 all others
Savings bond interest tax-free if used for education	Deduction limited to amount of qualified expenses	$145,200 joint $96,800 all others
Coverdell	$2,000 maximum; not deductible	$190,000 joint $95,000 all others
529 plan (K-12)	$10,000 distribution	None
529 plan (Higher Ed.) †	Distribution limited to amount of qualified expenses	None

Tax Deadlines

January 16 – 4th installment of the previous year's estimated taxes due
April 15 – Tax filing deadline, or request extension to Oct. 15. 1st installment of 2024 taxes due. Last day to file amended return for 2020. Last day to contribute to: Roth or traditional IRA for 2023; HSA for 2023; Keogh or SEP for 2023 (unless tax filing deadline has been extended).
June 17 – 2nd installment of estimated taxes due
September 16 – 3rd installment of estimated taxes due
October 15 – Tax returns due for those who requested an extension. Last day to contribute to SEP or Keogh for 2023 if extension was filed.
December 31 – Last day to: 1) pay expenses for itemized deductions; 2) complete transactions for capital gains or losses; 3) establish a Keogh plan for 2024; 4) establish and fund a solo 401(k) for 2023; 5) complete 2024 contributions to employer-sponsored 401(k) plans; 6) correct excess contributions to IRAs and qualified plans to avoid penalty.

* Greater of $1,300 or $450 plus the individual's earned income.
** Indexed for inflation and scheduled to sunset at the end of 2025.
† $10,000 lifetime 529 distribution can be applied to student loan debt.

Retirement Plan Contribution Limits

Annual compensation used to determine contribution for most plans	$345,000
Defined-contribution plans, basic limit	$69,000
Defined-benefit plans, basic limit	$275,000
401(k), 403(b), 457(b), Roth 401(k) plans elective deferrals	$23,000
Catch-up provision for individuals 50 and over, 401(k), 403(b), 457(b), Roth 401(k) plans	$7,500
SIMPLE plans, elective deferral limit	$16,000
SIMPLE plans, catch-up contribution for individuals 50 and over	$3,500

Individual Retirement Accounts

IRA type	Contribu-tion limit	Catch-up at 50+	Income limits
Traditional non-deductible	$7,000	$1,000	None
Traditional deductible	$7,000	$1,000	If covered by a plan: $123,000 - $143,000 joint $77,000 - $87,000 single, HOH 0 - $10,000 married filing separately If one spouse is covered by a plan: $230,000 - $240,000 joint
Roth	$7,000	$1,000	$230,000 - $240,000 joint $146,000 - $161,000 single & HOH 0 - $10,000 married filing separately
Roth conversion			No income limit

Health Savings Accounts

Annual limit	Maximum deductible contribution	Expense limits (deductibles and co-pays)	Minimum annual deductible
Individuals	$4,150	$8,050	$1,600
Families	$8,300	$16,100	$3,200
Catch-up for 55 and older	$1,000		

Deductibility of Long-Term Care Premiums on Qualified Policies

Attained age before close of tax year	Amount of LTC premiums that qualify as medical expenses in 2024
40 or less	$470
41 to 50	$880
51 to 60	$1,760
61 to 70	$4,710
Over 70	$5,880

Medicare Deductibles

Part B deductible	$240.00
Part A (inpatient services) deductible for first 60 days of hospitalization	$1,632.00
Part A deductible for days 61-90 of hospitalization	$408.00/day
Part A deductible for more than 90 days of hospitalization	$816.00/day

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Social Security

Benefits		
Estimated maximum monthly benefit if turning full retirement age (66) in 2024	$3,822	
Retirement earnings exempt amounts	$22,320 under FRA $59,520 during year reach FRA No limit after FRA	
Tax on Social Security benefits: income brackets		
Filing status	**Provisional income***	**Amount of Social Security subject to tax**
Married filing jointly	Under $32,000 $32,000-$44,000 Over $44,000	0 up to 50% up to 85%
Single, head of household, qualifying widow(er), married filing separately and living apart from spouse	Under $25,000 $25,000-$34,000 Over $34,000	0 up to 50% up to 85%
Married filing separately and living with spouse	Over 0	up to 85%
Tax (FICA)		
SS tax paid on income up to $168,600	**% withheld**	**Maximum tax payable**
Employer pays	6.2%	$10,453.20
Employee pays	6.2%	$10,453.20
Self-employed pays	12.4%	$20,906.40
Medicare tax		
Employer pays	1.45%	varies per income
Employee pays	1.45% plus 0.9% on income over $200,000 (single) or $250,000 (joint)	varies per income
Self-employed pays	2.90% plus 0.9% on income over $200,000 (single) or $250,000 (joint)	varies per income

*Provisional income = adjusted gross income (not incl. Social Security) + tax-exempt interest + 50% of Social Security benefit

Medicare Premiums

2022 MAGI single	2022 MAGI joint	Part B Premium	Part D income adjustment
$103,000 or less	$206,000 or less	$174.70	$0
103,001-129,000	206,001-258,000	$244.60	$12.90
129,001-161,000	258,001-322,000	$349.40	$33.30
161,001-193,000	322,001-386,000	$454.20	$53.80
193,001-500,000	386,001-750,000	$559.00	$74.20
Above 500,000	Above 750,000	$594.00	$81.00

Uniform Lifetime Table (partial)

Age of IRA owner or plan participant	Life expectancy (in years)	Age of IRA owner or plan participant	Life expectancy (in years)
73	26.5	89	12.9
74	25.5	90	12.2
75	24.6	91	11.5
76	23.7	92	10.8
77	22.9	93	10.1
78	22.0	94	9.5
79	21.1	95	8.9
80	20.2	96	8.4
81	19.4	97	7.8
82	18.5	98	7.3
83	17.7	99	6.8
84	16.8	100	6.4
85	16.0	101	6.0
86	15.2	102	5.6
87	14.4	103	5.2
88	13.7	104	4.9

Information contained herein is current as of 12/26/23. It is subject to legislative changes and is not intended to be legal or tax advice. Consult a qualified tax advisor regarding specific circumstances. This material is furnished "as is" without warranty of any kind. Its accuracy and completeness is not guaranteed and all warranties expressed or implied are hereby excluded.

Sources:

Sources: IRS, Affordable Care Act, Social Security Administration, Centers for Medicare & Medicaid Services, Misc IRS documents.

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