Personal Finance

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Charitable Giving

Charitable giving increases almost every year. In 2020, despite people being out of work, Americans gave more money to charities than ever before, according to Giving USA, at $471 billion.

The Philanthropy Roundtable reports that 60% of American households do some sort of charitable giving. They do so at a rate that is seven times higher than their European counterparts and twice as much as Canadians.

GIVING STATISTICS

Define Financial gathered some statistics in 2022 about charitable giving.

More than 80% of all donations to charities and nonprofits come from individuals and not corporations. People who make less than $50,000 a year give more in relation to total income than those in any other income range except the highest earners. The income group that gives the least? Those in the $100,000 to $500,000 range.

In 2020, there was a 20% increase in online giving.

The main reason that people give to charities? Doing so releases dopamine in the brain, the feel-good chemical.

GENERATIONAL GIVING

While the average giver is 64, making them a Boomer, Millennials are also donating a lot. 84% of Milennials give to charity and they are most likely to make donations online. They are the age group most likely to set up recurring donations. Only 59% of Gen Xers are regular donors, but they are more likely than their counterparts to start fundraisers or volunteer their time. Baby Boomers are generous with 72% of them donating and they account for 43% of all donations each year. The Silent Generation has an 88% donor rate and even though they account for only 11% of the population, they do 26% of the giving.

CHOOSING CHARITIES

Not all organizations qualify as charitable contributions as far as the IRS is concerned. An organization has to be a 501(c)(3) to qualify, which means they are a nonprofit religious group, a nonprofit educational group or a nonprofit charitable group. Individuals don't count.

The IRS has an online searchable database where you can look up who qualifies. They also offer a web-based mini-course on how to deduct charitable contributions.

USA.gov recommends doing further research and making sure that the organization you give to will use your money in the way that they say they will and that they are legitimate organizations. They recommend checking in with your state attorney general to see whether an organization has had complaints filed about it.

TYPES OF DONATIONS

Most people don't make charitable donations for the sake of tax breaks, but if you are making donations, it makes sense to claim them on your taxes.

Charitable donations can be made with money (cash, check, credit or debit card, payroll deductions, automatic withdrawals from your bank account), goods or personal property, vehicles or other property such as art, jewelry, stocks, real estate or patents.

A donation only counts as deductible if you don't receive anything in return.

Fix Credit Report Errors

Your credit score affects how much you pay for loans, your ability to open lines of credit, the interest rates you pay, whether you can get leases and sometimes whether you can get hired at a job.

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It's why if there is a mistake on your credit report, you need to get it fixed.

FINDING ERRORS

Unfortunately, credit report errors are not uncommon. The top complaint that the Consumer Financial Protection Bureau receives is that there is an error on a credit report. When the Federal Trade Commission studied credit reporting, they found out that 26% of their participants had at least one error that made them appear riskier to lenders.

Thankfully, finding and disputing errors are easier than ever. According to the Federal Trade Commission, everyone can get free weekly credit reports from Equifax, Experian and TransUnion at AnnualCreditReport.com through December. Anyone in the U.S. can get six free credit reports per year through 2026 at the Equifax website.

Make a regular habit of checking your credit report to be sure the information on it is accurate. It's also a good way to discover identity theft.

FIXING ERRORS

Credit bureaus and the business that supplied the information to the credit bureau are required to fix errors, and to do it at no charge to you.

Most credit bureaus let you dispute errors online. It's a quick and easy process that involves clicking on what you think is wrong and selecting the error that you found. They then give you space to type in additional information. You can download dispute forms and send them through the mail.

Keep good records of what you dispute, how and when.

The credit bureaus must investigate your dispute within 30 days. If they find it to be frivolous or irrelevant, they must notify you of that and give you the opportunity to submit additional evidence. They will forward all evidence you submitted to the business that reported the information. The business is required to investigate and report back. If they find the information is inaccurate, they must notify all three nationwide credit bureaus.

The credit bureau must then give you the results of their investigation and if they change your report, they must give you a free copy of your updated report.

If you ask — and it is a good idea to do so — they must send notices of the correction to anyone who got your report in the past six months or anyone who got a copy for employment purposes for the past two years.

You can also dispute an error directly with the company that reported it to the credit bureau. While you may start the process with a phone call, it is always a good idea to document any communication. Best practices are to write a letter or email that says you are disputing an error and include your complete name, address, each bit of inaccurate information you want fixed and why, copies of any documentation (don't send originals).

They are then required to let the credit bureau know that you are disputing it and they must include a notice that you are doing so.

Some Investors Gotta Have Art

With high inflation and a crashing stock market, 2022 was a year that gave headaches to many investors.

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One type of investment that did see an increased interest, according to Forbes Magazine, was investment in art.

There are many reasons that this market saw an uptick. The Motley Fool pointed out that while the pandemic originally caused a drop in contemporary art turnover because in-person auctions were canceled, it quickly bounced back as auctions and galleries shifted to online transactions. Now, more artists are being sold than ever before and million-dollar sales are grabbing headlines.

Both Forbes and The Motley Fool point out that for people who want to diversify their assets, the art market makes a lot of sense because it is not highly correlated with stock or bond markets. Art values have almost no relationship to the two, making it a stable investment.

DollarSprout says that art consistently delivers average returns of 7.6%.

However, investing in art is different than investing in stocks or bonds.

RESEARCH

Like any investment, investing in art requires research, but it isn't the same kind of research as is done for other investments. You need to learn a lot about art. Spend time reading art auction news and going to galleries and museums. Talk to curators and art specialists about what pieces are high in value. Visit Instagram pages to find artists you like.

You'll also want to read articles on what is trending in the art world. Become a part of an art community and connect with other art patrons.

ART CONSIDERATIONS

There are costs involved with investing in art that go beyond the purchase price. Unlike a stock certificate, it requires care to keep it in top condition. You may have to have special lighting, temperature control, special frames and somewhere safe to keep or display it.

On the other hand, you get something beautiful or compelling to put on your wall. It's why investors are encouraged to purchase art that they like, not just something they think will increase in value. Part of the joy of art investing is being able to experience the art.

WAYS TO INVEST IN ART

Art comes with a wide range of risk and price tags. Some investors will choose to buy original works at auctions, galleries and art fairs. Others will choose new and upcoming artists that they like and hope will grow in popularity.

For those who do not want to spend the amount of money that it costs to buy an original, they may choose to buy limited-edition prints. They don't typically increase much in value because they aren't unique.

For investors with a lot of cash there are "blue-chip" artists — the big names that everyone has heard of. These are works that will typically have stable value.

Not everyone who invests in art wants to actually have it in their home or hanging on their wall. For those investors, art funds let them partially own pieces of art. There is a holding company that buys and sells the art and keeps it safe. The holding company does all the research and manages the investments.

Pre-Paying Income Tax

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Mid-April isn't the only time that income taxes are due.

While it is a spring rite for all taxpayers, those who are freelancers, private contractors or own their own business must make more frequent dates with the IRS.

ESTIMATED TAXES

The IRS dubs these payments estimated taxes and they can be paid quarterly or periodically. Why do some people have to pay taxes more frequently?

The IRS explains that, "taxes must be paid as you earn or receive income during the year, either through withholding or estimated tax payments. If the amount of income tax withheld from your salary or pension is not enough, or if you receive income such as interest, dividends, alimony, self-employment income, capital gains, prizes or awards, you may have to make estimated tax payments."

The IRS will charge a penalty for late estimated tax payments, even if a person is due a refund when they file their tax returns.

Many states also require taxpayers to make estimated income tax payments.

WHO DOES AND DOESN'T HAVE TO PAY ESTIMATED TAX?

Estimated tax rules apply to U.S. citizens, resident aliens, nonresident aliens, and residents of Puerto Rico, the U.S. Virgin Islands, Guam, the Commonwealth of Northern Mariana Islands and American Samoa.

The IRS identifies three people/organizations that have to pay estimated tax:

- Individuals such as sole proprietors, partners, S corporation shareholders who expect to owe a tax of $1,000 or more when their return is filed.
- Corporations who expect to owe a tax of $500 or more when their return is filed.
- Individuals who expect their withholding and refundable credits to be the smaller of a) less than 90% of the tax shown on their current year return or b) 100% of the tax shown on your prior year return.

There are special withholding rules that apply to farmers, fishermen, certain household employers and higher income taxpayers.

You do NOT have to make estimated taxes if your employer holds the correct amount of taxes from your earnings. You also don't have to pay estimated tax in the current year if you had no tax liability in the prior year, you were a U.S. citizen or resident for the whole year and your prior tax year covered a 12-month period.

MAKING ESTIMATED TAX PAYMENTS

In recent years, the IRS has made it a lot easier to make estimated tax payments. They used to have to be made quarterly through the mail using Form 1040-ES. While you can still do that, you can also create an online account with the IRS and make payments whenever you receive income. You can also pay by phone or from a mobile device using IRS2Go app.

CALCULATING WHAT IS OWED

Individuals can use Form 1040-ES to calculate their estimated tax. They will need to figure their expected adjusted gross income, taxable income, taxes, deductions and credits for the year. While it can be tricky, you want to estimate how much income you will earn that doesn't have withholding applied.

Passive Income

While many groan when they hear work smarter, not harder, it is a phrase that could be applied to passive income.

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Passive income is money that you make from a source other than an employer or contractor. The IRS calls passive income rental property or a business in which you do not actively participate — such as being paid book royalties or stock dividends.

Passive income doesn't mean that you get money for no work. It just means that you will likely do most of the work upfront with only some additional maintenance along the way. It is a way to create extra income without having to work more hours every week.

The IRS does treat passive and labor income differently. You can use passive losses to offset passive gains on your taxes.

TYPES OF PASSIVE INCOME

There are many forms of passive income and they are really limited only by a person's creativity. However, there are some that are more common and popular.

Real estate. Rental properties are the most common type of passive real estate income. Investors buy a property and then rent it out to provide a regular flow of money. There is some work that has to be done in maintaining the property and keeping it up to local laws and standards. Other forms include real estate investment trusts and real estate crowd funding.

Peer-to-peer lending. A relatively new form of passive income, it is a method with fairly low financial barriers. Online platforms connect borrowers and lenders and handle most of the paperwork. Investors get returns ranging from 7 to 12% and can invest small amounts of money.

Course creation. Are you an expert in something or do you have specialty knowledge? Sites such as Udemy, Coursera and SkillShare will let you upload courses and then you earn money from anyone who buys the course.

Dividend stocks. Buying stocks that yield dividends are considered a form of passive income. They pay cash dividends on a quarterly basis from their profits to all stockholders. However, you need to research companies carefully and make sure they will be able to maintain the dividend payouts. Investopedia recommends choosing stocks that have the "dividend aristocrat" label, which means the company has at least a 25-year track record of paying out substantial dividends.

Royalties. There are many things that you can create that produce royalties—an ongoing percentage of sales made. These include books (traditional or e-books), apps or music.

Passive income is not a get-rich-quick scheme nor is it something that requires no effort, but it can increase your wealth, provide you with a safety net should you lose your regular job, allow you to retire early or provide you with extra retirement income.

Types of Mortgages

A home mortgage is likely one of the biggest loans you will ever take. It can be one of the best financial decisions you make or one that complicates your finances.

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It's why you will want to consider the options carefully and know what you are signing for.

INTEREST RATE TYPE

Fixed-rate loans are the most popular choice among home buyers. According to Consumer Financial Protection Bureau, 85% to 90% of home buyers from 2008 to 2014 chose a fixed-rate loan.

Why is it so popular? There is a single interest rate and monthly principal and interest payment for the entire loan. Neither change, making it a lower-risk loan with no surprises.

Realtor.com says this type of loan is right for people who plan to stay in the same place for most of the life of the loan and for those who crave predictability.

The second type of interest rate is an adjustable-rate mortgage. The interest rate usually starts out lower than a fixed-rate mortgage for the first five to ten years. After that, they are adjusted annually according to whatever the current interest rates are, meaning the monthly payment can go up or down.

Realtor.com recommends this type of interest rate for home buyers with lower credit scores or for people who plan to sell their home before the fixed-rate period is up.

LOAN TERM

The term of the loan refers to how long it will be. Common terms are 15-year, 25-year and 30-year. The choice affects your monthly payment, your interest rate and how much interest you pay over the life of the loan. Shorter-term loans have higher monthly payments but they typically have lower interest rates and you pay less total cost. Higher-term loans have lower monthly payments, but usually higher interest rates and you pay more total cost.

LOAN TYPES

Lending companies are always coming up with new types of loans, but some of the most common are:

Conventional. This covers most loans. According to the Consumer Financial Protection Bureau, a conventional loan is "any mortgage loan that is not insured or guaranteed by the government." They are usually less expensive than a government loan, but harder to get. Realtor.com says typical home loans require a down payment of 20% of the purchase price of the home.

Federal Housing Administration. This loan has a low down payment and is available to those with poor credit or lower income. These loans, according to Realtor.com, can have a down payment as low as 3.5%. They are backed by the government. Loan amounts are limited (as of 2022) to $417,000. They are fixed-rate mortgages with either 15- or 30-year terms. Buyers must pay mortgage insurance, which is about one percent of the loan amount.

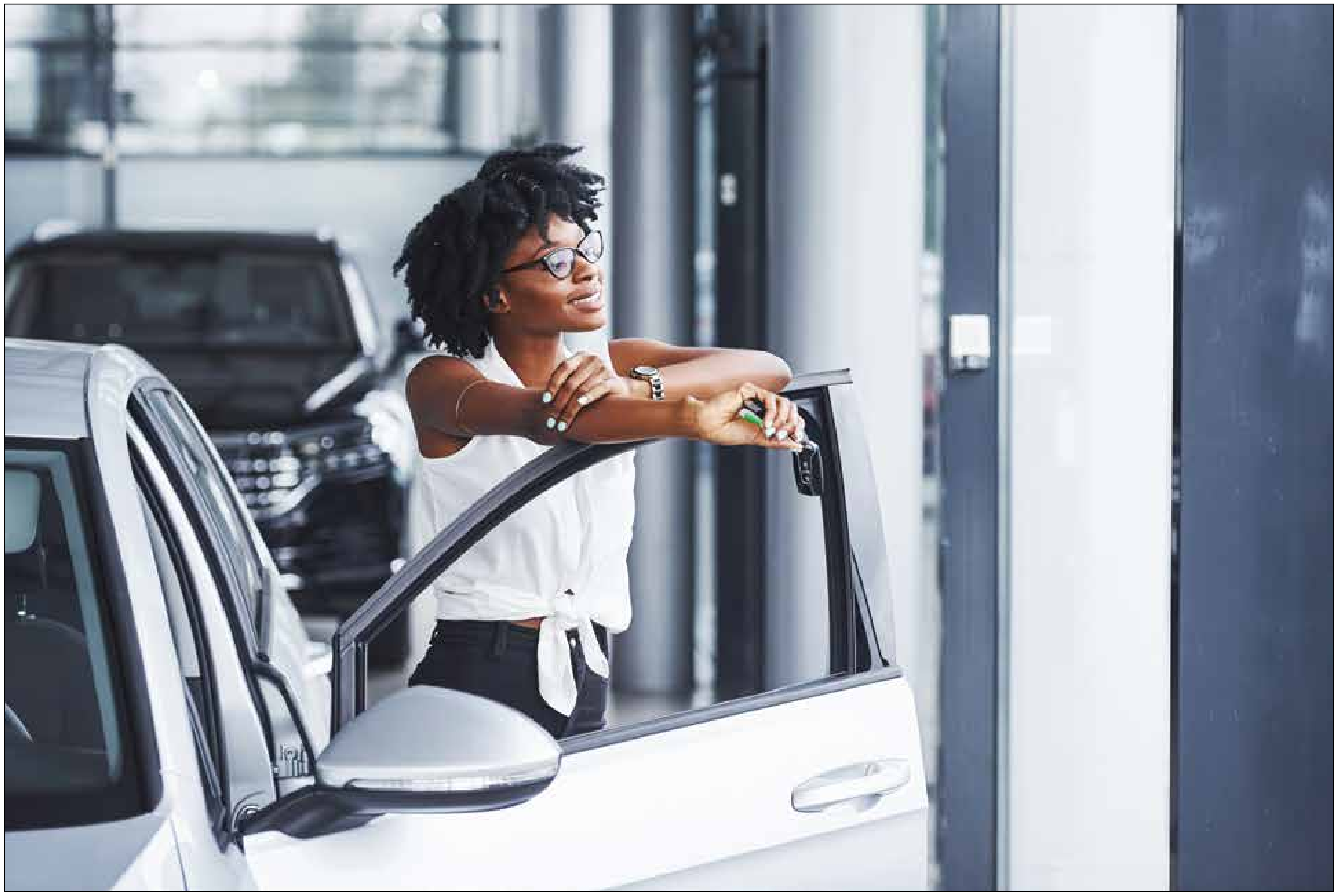
VA loan. These government-backed loans are for veterans. They require no down payment and no mortgage insurance. It must be the buyer's primary resident and it can't be a fixer-upper.

USDA loan. Another government-sponsored home loan, it is available for people in rural areas. There is no down payment and there are discounted mortgage interest rates. However, according to Realtor.com, your debt load cannot exceed your income by more than 41% and you will have to buy mortgage insurance.

Bridge loan. Also called a gap loan, it is primarily given to people who are buying a new home before they sell their previous home. It rolls the two mortgage payments into one and then when the other home is sold, that mortgage is paid off and the buyer refinances.

Leasing vs. Owning

With vehicle prices continuing to rise, leasing has become an increasingly popular option for people needing a vehicle.



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According to Consumer Reports, more people are opting for leases than car loans than have in the past. Some of this may be because with more people working from home, they aren't putting as many miles on their cars, one of the key factors in leasing a car.

BUYING VS. LEASING DIFFERENCES

The Federal Trade Commission recommends that people understand the difference in leasing and buying before making a decision.

When you lease a car, you are renting it. You pay for the car's expected depreciation plus a rent charge, taxes and fees. At the end of the lease term, you return the car, which means you don't build equity and are always paying for a car. There is usually a lower monthly payment and you can get into a more luxurious car than you might otherwise be able to afford. However, there is a limit to the annual mileage you can drive, usually 15,000 a year. You are also responsible for any excess wear, damage or missing equipment. You have to service the car according to the manufacturer's recommendations and keep up car insurance.

When you buy a car, it is yours. You don't have to worry about mileage restrictions or wear and tear on the car. Investopedia quotes most experts as saying this is the better long-term financial decision.

It is usually cheaper to buy a car and hold onto it for as long as possible.

ADVANTAGES TO LEASING

According to Consumer Reports, the major advantages of leasing are that you will drive the car during its most trouble-free years; the vehicle is usually covered by the manufacturer's warranty, your vehicle will have the latest safety features, you don't have to worry about trade-in values or the hassle of selling a used car and there could be significant tax advantages for business owners.

Investopedia adds that leasers usually have lower monthly payments and you can get a new car every few years.

ADVANTAGES TO BUYING

Bankrate.com says buying a vehicle is best for those who want to be in total control of their finances and their vehicle. You don't have to worry about how many miles you put on the car or wear and tear. If you plan to keep your car for a lengthy period, particularly longer than the loan term, you're building equity and you will have time where you are not paying for a car.

There are also several ways you can buy a car. You can use a trade-in to lower the price, you can pay cash, you can take out a bank or a dealer-financed loan or even use a credit card.