

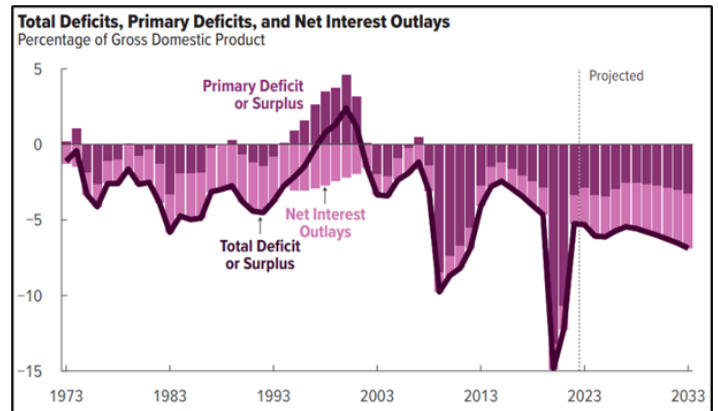
US Government Debt: Not A Problem Until It Is

By: Ben McCue, CFA
Investment Research Analyst

In our *January 2023 Market Commentary*, we discussed the ongoing legislative debate to raise the federal debt ceiling, which would authorize the U.S. Treasury to issue more debt to fund the government’s previously approved expenditures. As we discussed, there will be no shortage of drama while Congress tries to reach an agreement. Historically speaking, the debt ceiling has been raised 100 times since WWII, which gives us confidence that the current situation will be resolved, and crisis averted - though a resolution might not come until the last minute, which would no doubt cause short-term uncertainty and market volatility.

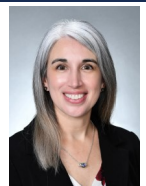
In our opinion, the bigger and longer-term concern is the high, and rising overall amount of outstanding Federal debt. Debt that is high and rising as a percentage of gross domestic product (GDP) can cause adverse economic effects. As the government borrows more money, the demand for credit increases, potentially causing interest rates to rise. Higher interest rates mean that the government needs to borrow more money to cover higher interest expense on its debt, exacerbating the problem.

Higher interest rates also lead to higher borrowing costs for businesses and consumers, which can slow economic growth.



The non-partisan Congressional Budget Office (CBO) projects the government’s net interest payments will roughly triple over

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Preparing for Tax Filing Season

By: Diana Castro, CPA, CFP®
Senior Financial Advisor

After the rush of the holiday season comes tax season. However, with some preparation and organization, this can be an easy box to check off the to do list.

Important Tax Deadlines and Dates for Individual Filers:

First off, know what is due and when so you can file timely and make appropriate payments, if required. All dates are in 2023 and relate to the 2022 Federal tax return.

- January 23 – The Internal Revenue Service (IRS) began accepting and processing 2022 federal tax returns.
- April 1 – For those that turned 72 in 2022, required minimum distribution (RMD) rules state that you must take your first RMD by this date.
- April 18 – Tax Day. Your 2022 tax return must be filed by this date along with any taxes owed. If you are not ready to file, you must file an extension by this date. Remember that an extension

gives you additional time to file a complete return but does not extend the time to pay your taxes.

- April 18 – If you want to make contributions to your IRA or HSA for the 2022 tax year, this is the deadline.
- October 16 – Extended due date to file your 2022 federal tax return.

Although we are focusing on 2022 return information, if you need to make estimated tax payments for the 2023 tax year, please make note of the estimated payment due dates of April 18 (1st quarter), June 15 (2nd quarter), September 15 (3rd quarter) and January 16, 2024 (4th quarter).

Consider getting your documents electronically.

Whether you self-prepare or use a CPA to file your tax return, it is important to gather all the necessary information to file a complete return.

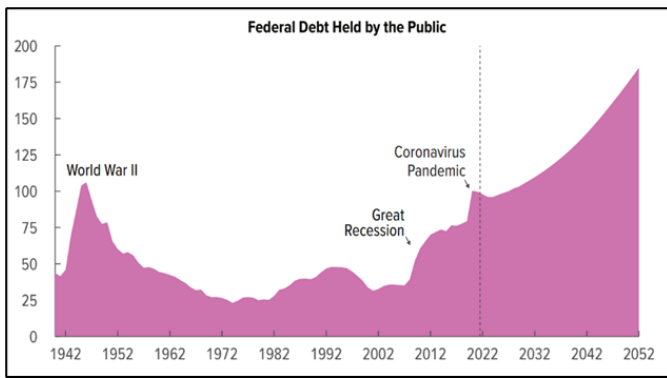
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the next decade, from \$475 billion, or 1.9% of GDP, in 2022 to more than \$1.4 trillion, or 3.6% of GDP, by 2033 (as seen in the chart on page 1). Net interest spending has not reached these levels since the 1980s and when it did, it effectively caused Congress to prioritize debt and deficit reduction. The current divisive political atmosphere in Washington will no doubt complicate the process of reducing Federal debt, but the issue is growing increasingly difficult to ignore.

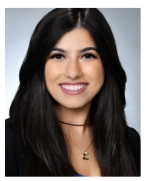
The chart below from the CBO shows the U.S. debt-to-GDP ratio on an unsustainable path under current fiscal policy. Federal debt reached 98% of GDP in 2023 and is projected to hit an all-time high in 2028. By the end of the forecast period in 2053, debt is expected to climb to 195% of GDP. Nobody really knows the point at which the debt-to-GDP ratio becomes a problem, and as the title to this article postulates, it's not a problem until it is!



This is because high levels of debt can potentially limit the government's ability to increase spending in response to temporary economic shocks, such as a recession, war, or financial crisis. In extreme cases, the government could find itself unable to attract enough buyers of its debt to service its debt obligations. In a worst-case scenario, the government does have the ability to “persuade” the Federal Reserve (Fed) to step in as a buyer of last resort for its bonds similar to what happened in 2020 and 2021, where the Fed bought over \$4 trillion of bonds through “quantitative easing”, using newly created money. While “monetizing” our debt can help the Federal government avoid default, such an expansion of the money supply inevitably leads to higher inflation, as we have recently and painfully discovered during the era of COVID stimulus spending. Over the long-term, continued monetization would almost certainly lead to the loss of the U.S. Dollar as the world’s reserve currency, which would be another disastrous outcome.

It's important to note that government debt is a complex issue. Credible experts disagree about the level at which debt becomes problematic and the potential consequences of high levels of debt. Ultimately, the tipping point when U.S. government debt is too high depends on various factors, such as the state of the economy, interest rates, inflation, and the government's plans for spending and revenue.

As it relates to GFC portfolios, we see no reason to lock in interest rates for a long period given our concern that high and increasing levels of Federal debt will ultimately put upward pressure on rates. As such, we will continue to keep our bond ladders short and will roll over maturing bonds into higher yielding ones should rates rise as we expect they might.



Cougar 100 Award

By: Masha Lakhani, MBA
Marketing & Communications Manager

On February 13, 2023, the University of Houston Alumni Association hosted its ninth-annual Cougar 100 Awards, honoring the 100 fastest growing Cougar-owned companies.

Goodman Financial is proud to be included on the list since the award’s inception as a ninth-time Cougar 100 Award winner, specializing in high net worth money management, financial advisory, and retirement planning services.

Mike Pede, President and CEO for Alumni Relations, and Dr. Khator, Chancellor of the University of Houston, made the opening remarks. The event also included keynote speaker, Natara Branch, CEO of Houston Exponential.

The Cougar 100 list is derived of the top 100 University of Houston Alumni led or owned businesses in operation of five years or more. With gross revenues above \$250,000, these companies are ranked by percentage of compound annual growth in sales or revenue across a three-year period.

Congratulations to our team and fellow alumni recipients on this achievement. Go Coogs! See the full list and more information: <https://houstonalumni.com/events/cougar-100-awards-luncheon/>.



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The majority of account custodians offer electronic delivery of their tax forms, which has many benefits. You are not waiting to receive paper documents in the mail, which may need to be scanned if providing to a CPA or tax preparer. Online access is more secure than having the document mailed to you. You may be able to download transactional data which can then be uploaded into the tax return software to make data input easier. For example, brokerage firms may offer the ability to download gain / loss information as a csv file. If you log into your accounts, you can explore what documents are available to you electronically.

Gather information not provided in tax forms.

Although tax forms such as 1099s provide much of the information required to prepare your tax return, some do not provide all of the information necessary for preparing the tax return for your situation.

- Qualified charitable distributions (QCDs) – Form 1099-R will show the entire distribution made from your IRA for the year along with any withholding. However, you will need to backout any QCDs made as those are not reported as taxable.
- Traditional IRA, Roth IRA, SEP IRA, and SIMPLE IRA contributions – All of these contributions are provided on Form 5498, which is not required to be provided until May 31. Therefore, filing your tax return before receiving this form will require you to know what your contributions to these various types of plans were for the 2022 tax year. Traditional IRA contributions may or may not be deductible on your tax return depending on your income level.
- Roth conversions – This will require combining information provided from both 1099-R, which shows the taxable IRA distribution, and Form 5498, which shows the Roth IRA conversion. Note again, that Form 5498 is not required to be provided until May 31.

- Charitable donations of appreciated stock – The charity receiving the stock will provide the receipt confirming the fair market value of the donation. You will need that information along with historical information about the stock to complete Form 8283 Noncash Charitable Contributions. You will need to locate the following information: date you acquired the stock, how it was acquired and your cost basis in the stock.

The above items are the most common we see with our clients, but it is not an exhaustive list. For clients of Goodman Financial, your advisory team is proactively working on providing you this information related to your accounts under our management.

File your return electronically.

With the IRS still dealing with a backlog of prior year paper returns, it is recommended to file your return electronically if possible. From a security standpoint, this provides more protection than mailing the return which contains a lot of personal information. Even if you file before the deadline, you may be able to set up your payment to be processed on April 18 so you get the benefit of knowing your return has been accepted without paying until the money is due. If you are receiving a refund, it will be processed faster with an electronically filed return if you provide your banking information.

Start organizing for 2023.

As you gather information for 2022, it can be helpful to start a 2023 folder, whether paper or electronic. With taxes already top of mind, as you start organizing for this year you will already feel better prepared. And remember, for clients of Goodman Financial, we are here to assist you so that you and your tax preparer have a successful and smooth filing season.





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The Goodman Report

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Check out our website
www.GoodmanFinancial.com
 for past newsletter articles and more content!

Complimentary CPE Courses in Coordination with TXCPA Houston

APRIL 2023

Tuesday, April 18, 2023 (8am – 11am)

Equity Compensation: Taxation and Planning
Tax Efficient Investing (3 CPE hours)

Tuesday, April 25, 2023 (Session 1: 8am – 11am)

Financial Planning Roadmap – Course Correction
Charitable Gifting & Giving Strategies (3 CPE hours)

Tuesday, April 25, 2023 (Session 2: 11:30am – 1:30pm)

Market Update
Tax & Investment Planning, Ages 55-72 (2 CPE hours)

MAY 2023

Tuesday, May 9, 2023 (8am – 4pm)

Financial Planning A to Z (8 CPE hours)

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