Leaked Data in Washington

The IRS has been tackling a severe public relations scandal this year. Government contractor Charles Littlejon was providing services to the IRS and illegally disclosed the personal information of thousands of the nation's wealthiest individuals to two news organizations — one of the organizations published just shy of 50 articles using the stolen data.

According to the BBC, Littlejon acknowledged that he used his position to violate the privacy of thousands of people and that he believed what he did was "right," even knowing that he may end up in court for this serious crime.

The IRS has stated that in light of these actions, it has made substantial investments in data security to strengthen its safeguard of taxpayer information.

Additionally, the IRS has said it will work closely with other government agencies and independent third parties to assess vulnerabilities in the IRS's systems. Letters have been sent out to individuals affected by the data breach. It will be interesting to see if the IRS apology letter stops these individuals from filing lawsuits… You probably don't need to worry about this data breach as it impacted a small minority of ultra-wealthy individuals.

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Your Tax Calendar

Sept 16 3rd quarter 2024 estimated tax payments due

Oct 1 Deadline to establish a Simple IRA for self-employed or small businesses

Oct 15 Extended tax returns due

Jan 15 4th quarter 2024 estimated tax payment due

Myth: If you own a business, you can pay your kids to work for your business up to $12,000 per year, and the money will not be taxable.

Truth: If you own a business, you might be able to pay your children a reasonable amount for the work they perform for your business. The amount you pay your child would be deductible by you and considered income to your child.

If the amount you paid your child is under $14,600 for 2024, the child would not need to pay any tax. So far, so good; however, if your child is NOT at an age where they can perform legitimate and necessary services for your business, the amounts you pay your children are not deductible. Call me if you are considering paying your child to work in your business. Also, if your business is an S corp or C corp your child's wages would be subject to 15.3% Social Security Tax but not income tax.

Myth: If you rent out your residence, you don't have to pay tax on any money you receive.

Truth: If you rent your residence for less than 15 days, the money is not taxable and does not need to be reported on your tax return. People on social media are quick to offer "strategies" for huge tax savings, but these strategies often abuse this rule. They make the statement that if you have a business, your business can pay rent to you and deduct the payment on the business return. They state that you don't have to report that income if the business only rents your home for less than 15 days.

There are very few times where this "strategy" actually works, and the amounts for less than 15 days would be very limited, so please don't trust everything you hear online.

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What Election Years Mean for Tax Law

Election years can feel tense for all Americans, especially in the current political climate. In the media, it is very common to see an attack against the tax initiatives of either party. In this article, we will break down some tax proposals by both sides and their likelihood of being passed. This article will avoid taking a political stance on any of these issues.

1031 Exchanges—Section 1031 of the Internal Revenue Code (IRC) allows taxpayers who own rental or commercial real estate (not your home) to swap one business or investment property for another without paying any tax on the appreciated value. The goal of this tax provision is to incentivize real estate investment and people from all walks of life use this provision to save money on taxes, from small families with a single rental property to large real estate developers with billion-dollar portfolios. Regardless of who ends up in the White House and Congress, it is unlikely that this provision will be removed following the election because of the sheer influence that real estate lobbies have over Congress.

Increase The Top Tax Rate To 39.6%—In 2017, the Tax Cuts and Jobs Act (TCJA) reduced the top tax rate from 39.6% to 37%. This change was only temporary, and unless the law is changed, the rates will return to what they were before the TCJA lowered them. The House and Senate would need to agree to extend this provision, as would the president. We believe this change will likely occur unless the Senate and the Presidency turn red.

Ending the Step-Up in Basis—When you buy something (an asset like a house, a business, etc.), the amount you paid to purchase the item is generally referred to as your basis. If you sell an item for more than your basis (more than you paid), you are typically taxed on the gain from the sale. If you die while holding an asset, your heirs will inherit the asset on a "stepped-up basis." This means that the basis will change to the fair market value on the date of your death regardless of the original purchase price.

For example, say you bought stock for $100,000 in 2005 that is now worth $300,000. If you sell it today, you will pay tax on $200,000 of gain. However, if, instead of selling that stock, you left it to your kids to inherit when you pass away, then your children will receive a "step-up" in basis to $300,000 (the value on the day you die). So, if your children sell the stock the day after you die for $300,000, they will pay no tax (because the sales price is the same as their basis).

This has been part of our tax laws for over 100 years. While it seems unlikely to be removed entirely, it may be modified to apply only to individuals with a few million dollars net worth.

No Tax on Tips—"No tax on tips" is currently being floated as a potential tax cut for the working class. Under our current law, tips are subject to income tax, Social Security, and Medicare. It is unclear if "no tax on tips" will exclude all taxes related to tips or just income tax. Whether or not this provision will be applied depends on what other tax changes are proposed, since the goal is to make a balanced budget. For instance, if Congress passes loads of other tax cuts, it may not be in the budget to also allow for "no tax on tips."

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Inheriting Retirement Accounts

If you inherit an IRA from a friend or family member who has passed, you can't just leave that money in the account until you want to start taking it out.

Special rules set requirements on how quickly you have to withdraw those funds. The amount of time you have to withdraw the money depends on your relationship with the person you inherited the account from and the age of the account's original owner.

If you inherited the account from someone who passed away before January 1, 2020, you will have to take distributions each year. The amount you are required to take out each year is based on your age in relation to the person who passed, as well as the value of the account. Like most things related to tax, there is an exception, and the exception to this rule is if you inherited an account from your deceased spouse. In these cases, you have many more options, so call me to discuss what might be best for you.

Things get a little more complicated if you inherited an account from someone who passed away on or after January 1, 2020. Generally, you must withdraw the entire account balance within ten years of the original account owner's date of death. **However, if you inherit the account and you are one of the following, special rules will apply:**

- ✔ *A minor child of the account owner who passed away*
- ✔ *The account owner's surviving spouse*
- ✔ *Not more than ten years younger than the original account owner*
- ✔ *Disabled or chronically ill*

You may have tax planning opportunities if you inherit a retirement account from a friend or family member. ***Call me if you find yourself in this situation or expect to inherit a retirement account sometime soon. The sooner you tell me, the more options we will have to ensure the best tax outcome.***

Medicare Premiums Lookback

If you receive social security benefits and pay Medicare premiums out of those benefits, the premium amount can change based on your income.

For 2024, the premiums are calculated by looking at your 2022 income tax return. If your 2022 income exceeds $103,000 if you file as single on your return ($206,000 if you file married filing jointly), your Medicare premiums may be increased. The higher your income goes above that threshold the more your premiums may increase.

Certain "life-changing" events may cause income to increase, but do not need to be included in the income calculation above. If you have an uncommon spike in income which causes your income to rise above the Medicare threshold levels, reach out to me for help submitting documentation to exclude certain taxable events from your Medicare premium calculations.

Common scenarios that could trigger unexpected increases include:

- ✔ ***Income in the year you stopped working.*** *If you retire and your last few years of salary were high, it could affect your premiums for your first two years of retirement. Other scenarios may include vesting of restricted stock, exercising stock options or other forms of deferred compensation.*
- ✔ ***Sale of your home or other property.*** *If you have large capital gains from the sale of a home or other property, this will cause an increase in your income for that year and may trigger higher Medicare premiums.*
- ✔ ***Roth conversions.*** The amount you convert to a Roth is considered taxable income in the year you make the conversion. If you converted some savings or are planning to do so, be aware that the sum you convert could push you over Medicare threshold.
- ✔ ***Other large taxable events or windfalls.*** There are countless situations that could cause a one-time spike in your income, so if you have any unexpected income, make sure to contact me.

Tax Scams to Avoid

If something sounds too good to be true, it probably is. In this segment, we'll be looking at popular tax scams being advertised all over the internet. Most of these scams have at least some legitimate tax components, but scammers abuse them, and you may be a target. Be cautious if you receive an email, phone call, or read an article online about one of these tax scams.

Buying Tax Credits

One of the most significant tax scams currently circulating involves purchasing tax credits. While this tax strategy can be used by some people, buying tax credits is a terrible idea for most Americans. On the surface, buying credits might sound really appealing, but it may not be right for you.

Imagine an energy company that constructs windmills and solar panels. As a result of building these energy items, they may qualify for an energy credit. Let's say that they generate $10,000 of energy tax credits, but they may have tax limitations that prevent them from claiming the credit. Because of recent tax changes, the energy company has the option to sell that credit to another person. So now the energy company offers to sell you the $10,000 tax credit for $7,000. Theoretically, you are getting $10,000 of tax savings for only $7,000.

Here's the problem: the tax credit you buy can only be used to offset the tax on certain types of income. If you are working as a company employee or self-employed, the tax credit will not be able to offset the tax from those types of income. That's the whole scam. The sellers of the credit will suggest that you give them money, and they give you a tax credit worth more. They don't tell you that the tax credit can't be used unless you have those specific types of tax.

Buying federal energy tax credits involves a substantial amount of risk, so I generally do not recommend participating in these transactions.

"Self-Employed Tax Credit"

If you own your own business, there is a good chance you've received tons of calls over the last few years about special tax incentives for business owners. One of the tax credits that promoters are advertising is called the Self-Employed Tax Credit. There is no such thing as a Self-Employed Tax Credit. Promoters use this name to make it easier to sell their services to business owners.

The "Self-Employed Tax Credit" is comprised of the COVID Sick and Family Leave or Employee Retention Credit. If someone contacts you and insists you qualify for these credits, please contact me before taking any action.

To qualify for one of these credits, you would have to be able to produce documentation that you were either:

- ✔ *Sick during 2020 or 2021 with COVID-like symptoms that prevented you from doing any work,*
- ✔ *Caring for an individual who was ill with COVID or needed to be quarantined, which prevented you from working, or*
- ✔ *Caring for a child whose school or daycare closed, which prevented you from working.*

These scam promoters don't tell you that the rules are not related to whether or not your self-employment income was "affected" or "impacted" by COVID issues. You would have to be able to prove you could not work at all for one or more days. Unless you have immaculate records, proving this was the case will be challenging, especially if you are trying to look back three years. I do not recommend engaging with anyone trying to sell you this scam.