tangiblevalues™ TAX AND ACCOUNTING PRODUCTS

Home of Tax-Aid and HG Forms
1.800.888.5803 • www.tangiblevalues.com

CLIENTUPDATE

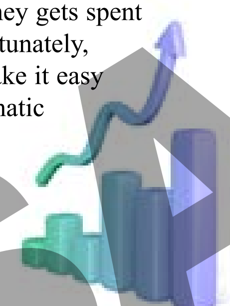
PRACTICAL TAX & FINANCIAL ADVICE

5 great money ideas

Here are 5 great money ideas to help you get ahead or move into a better financial position.

1) Make savings automatic

Take steps to make your savings happen automatically. Setting up automatic transfers for a certain day of the month or payday can help you shore up regular savings before the money gets spent elsewhere. Fortunately, most banks make it easy to set up automatic transfers for a day that works for you.



2) Pay down debt

Data from the Federal Reserve shows the average interest rate on credit card accounts was 22.16% in May 2023. At that rate, paying down $10,000 in debt with a monthly payment of $200 would take 134 months and cost $16,654 in interest alone. If you have high interest debt, consider paying it down as fast as you can.

3) Upgrade your savings accounts

While interest rates on loans and other debt are sky high, higher rates give you the chance to earn more on your savings. In fact, many of the best certificates of deposit (CDs) and high-yield savings accounts are offering yields of more than 5.00% right now with reasonable minimum balance requirements. But read the fine print—there may be hidden fees lurking at some banks.

4) Boost retirement contributions

Take advantage of time and compound interest right now by increasing your contributions to a 401(k), traditional IRA or a Roth IRA. In 2023 you can contribute up to $22,500 in a 401(k) ($30,000 if 50 or older), and up to $6,500 in an IRA ($7,500 if 50 or older).

5) Create and use a monthly budget

Finally, consider writing up a monthly budget or spending plan that ensures each dollar you earn is allocated to a specific goal or category. From there, track your spending throughout the month to see how your actual purchases and bills align with the plan you've created. Make tweaks to your budget accordingly and look for opportunities to cut spending in categories you have some control over, like dining and entertainment.

tangiblevalues™ TAX AND ACCOUNTING PRODUCTS

Home of Tax-Aid and HG Forms

Inside this Issue:

CLIENTUPDATE

WINTER 2023

Contact Us

1.800.888.5803
www.tangiblevalues.com

Watch out for these tax surprises

No one likes surprises from the IRS, but they do occasionally happen. Here are some examples of tax situations you could find yourself in and what to do about them.

Kids getting older tax surprise

One of the largest tax deductions your children can provide you is via the child tax credit. If they are under age 17 on December 31st and meet several other qualifications, you could get up to $2,000 for that child on the following year's tax return. But you'll lose this deduction the year they turn 17. If their 17th birthday occurs in 2023, you can't claim them for the child tax credit when you file your 2023 tax return in 2024, resulting in $2,000 more in taxes you'll need to pay.

Limited losses tax surprise

If you sell stock, cryptocurrency or any other asset at a loss of $5,000, for example, you can match this up with another asset you sell at a $5,000 gain and—presto! You won't have to pay taxes on that $5,000 gain because the $5,000 loss cancels it out. But what if you don't have another asset that you sold at a gain? In this example, the most you can deduct on your tax return is $3,000 (the remaining loss can be carried forward to subsequent years).

Herein lies the tax trap. If you have more than $3,000 in losses from selling assets, and you don't have a corresponding amount of gains from selling assets, you're limited to the $3,000 loss. So if you have a big loss from selling an asset in 2023, and no large gains from selling other assets to use as an offset, you can only deduct $3,000 of your loss on your 2023 tax return.

Getting a letter from the IRS surprise

Official tax forms such as W-2s and 1099s are mailed to both you and the IRS. If the figures on your income tax return do not match those in the hands of the IRS, you will get a letter from the IRS saying that you're being audited. These audits are now done by mail and are commonly known as correspondence audits.

Assuming you already know you received all your 1099s and W-2s and confirmed their accuracy, verify the information in the IRS letter with your records. Believe it or not, the IRS sometimes makes mistakes! It is always best to ask for help in how to correspond and make your payments in a timely fashion, if they are justified.

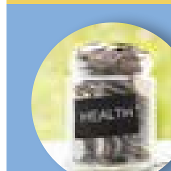
Please call to schedule a tax planning session so you can be prepared to navigate around any potential tax surprises you may encounter on your 2023 tax return. ♦

CUT YOUR TAX BILL

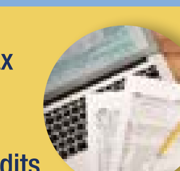
Here are several tips to cut your tax bill in 2024:

1 **Contribute** to retirement accounts

2 **Offset** capital gains with capital losses



3 **Fund** a flexible spending or health savings account



4 **Schedule** a tax planning session to uncover more deductions & credits

THANK YOU

We appreciate your business and continued support.

Wishing you a happy holiday season and a prosperous 2024.

The IRS is NOT always right

Here are some suggestions for how to deal with a notice from the IRS

Here are several quotes from actual IRS correspondence that serves as evidence that our national tax collection agency is not always right:

"Thank you for your correspondence. We currently do not have a copy of the correspondence we sent to you regarding your child's tax return."

"Our records show we received a 1040X ... for the tax year listed above. We're sorry but we cannot find it."

"Our records show you owe a balance due of $0.00. If we do not receive it within 30 days, appropriate collection steps will be taken."

"Payment is due on your account. Please submit payments on or before June 31 to avoid late payment penalties and interest."

It's pretty tough to pay a balance due of $0 on June 31st when June only has 30 days. The message should be clear. If you receive a notice from the IRS, do not automatically assume it is correct and submit payment to make it go away. Here are some suggestions for how to handle a letter you may receive from the IRS or other taxing authority:

① **Stay calm.** This is easier said than done, but remember the IRS sends out millions of notices each year. The vast majority of them correct simple oversights or common filing errors.

② **Open the envelope.** Many people become so stressed when receiving a letter from the IRS that they can't bear to open the envelope. If you fall into this category, remember that the first step in making the problem go away is to open the correspondence and read through the entire letter.

③ **Carefully review.** Review the letter. Try to understand exactly what the IRS thinks needs to be changed and determine whether or not you agree with their findings. Unfortunately, the IRS rarely sends correspondence to correct an oversight in your favor, but it sometimes happens.

④ **Respond timely.** The correspondence received should be very clear about what action the IRS believes you should take and within what time frame. Delays in responses could generate penalties and additional interest payments.

⑤ **Get help.** Getting assistance from someone who deals with this all the time makes the process go much smoother.

⑥ **Correct the IRS error.** Once the problem is understood, a clearly written response with copies of documentation will cure most of these IRS correspondence errors. Often the error is due to the inability of IRS computers to conduct a simple reporting match. Pointing to the correct information on your tax return may solve the problem.

⑦ **Certified mail is your friend.** Any responses to the IRS should be sent via certified mail or other means with proof of delivery. This will provide evidence of your timely correspondence. Lost mail can lead to delays, penalties, and additional interest on your tax bill.

⑧ **Don't assume it will go away.** Until a definitive confirmation that the problem has been resolved is received, assume the IRS still thinks you owe them money. If no correspondence confirming the correction is received, a written follow-up will be required.

Receiving a letter from the IRS is never fun. These tips, though, should make the experience less stressful. Please call if you have questions or need assistance. ♦

IRS Update

Taxpayers encouraged to look at paycheck withholding heading into 2024

The IRS reminds taxpayers that late 2023 and early 2024 is a great time to look at your paycheck's tax withholding amounts. Various life events in the preceding 12 months can potentially lead to a taxpayer owing a different amount of taxes in 2024 than they owed in 2023.

Taking a fresh look at your withholdings can determine if you have too much withheld and whether an adjustment would put more cash in your pocket. Not having enough taxes withheld could lead to an unexpected tax bill when filing your tax return.

Max amount of Social Security taxes you'll have to pay spikes due to inflation

The maximum amount of Social Security taxes you'll have to pay in 2024 is $10,453.20, a jump of 5% from the $9,932.40 maximum amount in 2023, the Social Security Administration announced in its annual cost-of-living increase report.

The amount of taxable earned income subject to the 6.2% Social Security tax rate (12.4% for self-employed) is $168,600 in 2024, up from $160,200 in 2023.

Social Security benefits will also increase by about 4%. Average retirement benefits starting January 2024 is $1,907 per month, up from $1,827 per month in 2023.

Interest rates increase for fourth quarter of 2023

Interest rates for the fourth quarter in 2023 will increase compared to last quarter. These rates include: 8% for overpayments (7% for corporations); 5.5% for the portion of a corporate overpayment over $10,000; 8% for underpayments and 10% for large corporation underpayments.♦

Tax Calendar

January 16, 2024

☐ Due date for fourth installment of 2023 individual estimated tax.

TAX COURT CORNER

THREE CASES, THREE GREAT TIPS

Here's a roundup of several recent tax court cases and what they mean for you.

Blogging for Taxes

(Thomas v. Commissioner of IRS, 160 T.C. No. 4)

The innocent spouse relief rule allows one spouse to avoid paying taxes caused by the other spouse due to their actions on a joint return. The spouse seeking relief can only discharge this tax liability if they had no prior knowledge of the error, and if it relates solely to their spouse's income from employment or self-employment.

Facts: Sydney Thomas and her husband did not pay the full tax liability shown on their 2012, 2013, and 2014 tax returns. Following her husband's death, Ms. Thomas sought to discharge the remaining tax liability using the innocent spouse relief rule.

The IRS argued that the innocent spouse relief rule didn't apply, using as evidence posts from Ms. Thomas's personal blog that contained information about Ms. Thomas's assets, lifestyle, business, and her relationship with her husband. Ms. Thomas countered that these posts were inadmissible. The tax court agreed with the IRS and allowed the posts to serve as evidence.

Tax Tip: *Be aware of what you post online. Remember that the IRS can use your social media posts as evidence against you.*

Keep Those Receipts

(Craddock v. Commissioner of IRS, T.C. Summary Opin. 2023-4)

You can deduct business expenses if they are ordinary and necessary for the regular operation of your business. You must also, however, have proper evidence to support these expenses.

Facts: Matthew and Chasta Craddock filed a joint 2018 Form 1040 tax return, reporting $1,000 of income and a loss of $33,104 from Mr. Craddock's business. Included in the business loss were car and truck expenses, along with other expenses.

After selecting the Craddock's 1040 return for audit, the IRS subsequently disallowed all business expenses. All business miles were disallowed because Mr. Craddock's mileage log for his truck did not break down personal miles vs. business miles. The IRS, supported by the court, also disallowed all other business expenses because Mr. Craddock could not produce proper documentation.

Tax Tip: *It's not enough to record your business expenses. You must also have appropriate substantiation as defined by the IRS. Pay attention to your recordkeeping or hire someone to help so you can defend your business expenses in the event of an IRS audit.*

What's Your Hobby?

(Wondries v. Commissioner of IRS, T.C. Memo. 2023-5)

The IRS requires that you have a profit motive if you want to deduct business expenses on your tax return. If the IRS believes that you don't have a genuine profit motive, it may reclassify your business as a hobby and disallow certain expenses in the future.

Facts: Paul and Patricia Wondries purchased a 1,100-acre ranch in California in 2004. While Paul had previously owned many successful businesses, this was the first foray into ranching for both Paul and Patricia.

In 2015, 2016 & 2017, the Wondries reported ranch losses of $473,901, $223,095, and $229,124, respectively, on their individual tax returns. Following an audit, the IRS assessed an additional $421,503 in taxes and $84,301 in penalties, claiming that the Wondries were not operating the ranch with a profit motive.

The tax court disagreed with the IRS, citing a full-time foreman the Wondries hired to run the ranch, and an official accounting and payroll system that was used to record transactions. So while never realizing a profit over 13 years, the tax court concluded that the Wondries did, indeed, operate the ranch with a profit motive.

Tax Tip: *If you are trying to start and grow a business, consider creating a business plan that shows which year you anticipate first turning a profit. Also consider asking for help so you understand the specific details of what the IRS is looking for when determining whether you have a true profit motive.* ♦