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CLIENT UPDATE

SPRING 2024

Protect yourself from modern-day counterfeiters

Finding brand name products at a great price can leave you feeling like you won the lottery, but there are hidden dangers that come into play if the goods aren't what they seem.

Here are some commonly counterfeited items and what you need to know to protect yourself.

Commonly counterfeited items

- **Currency.** The U.S. Treasury estimates that there are nearly \$9 million of counterfeit bills in circulation. While creating an excellent counterfeit \$100 bill would seem difficult, criminals can trick you if you aren't paying attention.
- **Shoes & Clothing.** Manufacturing a low-quality knock-off and slapping a brand name label on a shirt or a pair of shoes is a tale as old as time. It's much harder to spot a fake through online pictures and videos than seeing and touching it in person.
- **Collectibles.** Watches, coins, jewelry and artwork are often faked and sold for far less than anyone should believe.

- **Electronics.** As technology continues to evolve, so does the ease of assembling electronics. Using cheap components and labor, companies can slap together their version of the real thing. This process cuts corners and sometimes skirts safety procedures that can lead to knock-off electronic products that can pose a hazard to your health.
- **Replacement parts.** Fake parts are common within the electronics and auto repair industries and are especially difficult to spot. Unfortunately, parts not produced by the original manufacturer often fail to meet their operational specifications.

How to protect yourself

- Knowing that counterfeit items are out there is the first step to avoiding them altogether. These additional tips can help you avoid fakes and the damage they cause:
- **Know the real thing.** The best way to spot a fake is to know the real thing inside and out. In the case of currency, the new \$100 bills have plenty of

watermarks, different textures and a security ribbon that make it difficult to fake. For products, do your research to know the characteristics of the legitimate item before you buy. Clues often come from irregularities in logos, colors and packaging.

- **Buy from authorized retailers.** Shopping around for the lowest price is a wise practice. Automatically going with the cheapest option is not. If your purchase is important, stick to an authorized retailer or reputable vendor.
- **Research, research, research.** The more you know the product, the less likely you will be tricked. Look at products from local stores and read through reviews of online vendors. Conduct research on scams and common tricks used by counterfeiters. Be wary of reviews from the website you are thinking about making the purchase from. Instead, conduct a web search of both the product and the vendor to see what people have to say.
- **Trust your instincts.** Remember that something that seems too good to be true probably is. If you believe an item is probably counterfeit based on the price of the item or the person/website selling it, you're probably right. ♦

Yes! You owe tax on that!

If something of value changes hands, you can bet the IRS considers a way to tax it. Here are several taxable items that might surprise you:

Hidden treasure

A married couple discovered \$4,467 in a used piano they purchased for \$15 seven years prior. After reporting this hidden treasure on their tax return, the couple filed an amended return that removed the \$4,467 from their gross income and requested a refund. The couple filed a lawsuit against the IRS when the refund claim was denied. The Tax Court ruled that the hidden treasure should be reported as gross income on the couple's tax return during the year when the hidden treasure was found.

Tip: The IRS considers many things to be taxable income, like hidden treasure, even though they are not explicitly identified in the tax code.

Scholarships and financial aid

Applying for scholarships and financial aid are top priorities for parents of college-bound children. But be careful — if any part of the award your child receives goes toward anything except tuition, it might be taxable.

Tip: When receiving an award, review the details to determine if any part of it is taxable. Don't forget to review state rules as well. While most scholarships and aid are tax-free, no one needs a tax surprise.

Gambling winnings

Hooray! You hit the trifecta for the Kentucky Derby. But guess what? Technically, all gambling winnings are taxable, including casino games, lottery tickets and sports betting. Thankfully, the IRS allows you to deduct your gambling losses (to the extent of winnings) as an itemized deduction, so keep good records.

Tip: Know when gambling establishments are required to report your winnings, as it varies by type of betting.

Unemployment compensation

The IRS doesn't give you a break on unemployment income, as all unemployment benefits you receive are taxable.

Tip: If you are collecting unemployment, you can either have taxes withheld and receive the net amount or make estimated payments to cover the tax liability.

Cryptocurrency & digital assets

Similar to stocks, cryptocurrency and other digital assets are considered property by the IRS. So if you own any digital assets, you must keep track of the asset's original cost and its value when you sell it. This information is needed so the tax on your gain or loss can be properly calculated.

Tip: For those considering replacing cash with cryptocurrency, you need to understand the gain or loss complications. For this reason, many people using these digital assets do so for speculative investment purposes. ♦

SAVE MORE FOR COLLEGE

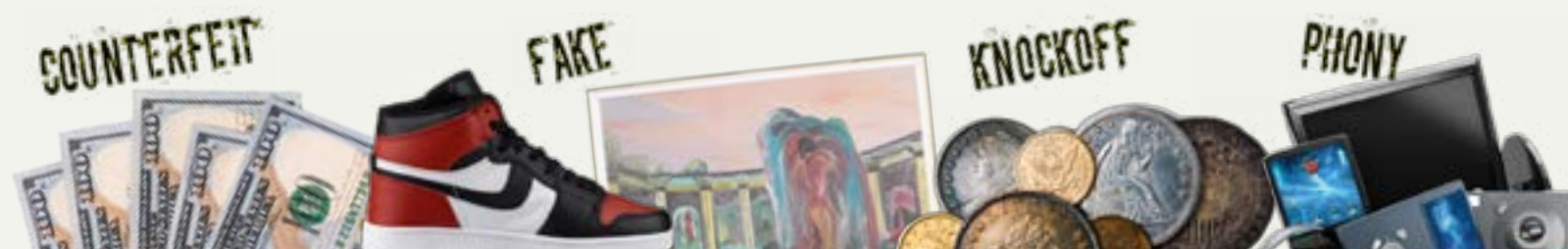
- 1.7 million Annual number of available scholarships
- \$100 million Annual unclaimed scholarships
- 20% Percentage of students who don't apply for scholarships

TIPS TO SECURE SCHOLARSHIP MONEY

- Fill out a Free Application for Federal Student Aid
- Ask local businesses, civic groups, foundations, and religious or community organizations if they offer scholarships
- Ask your school, as nearly every college in the U.S. offers some form of merit-based financial aid

APPLY

Source: National Postsecondary Student Aid Study





TAX COURT CORNER

Avoid a retirement account withdrawal tax surprise

A penalty and tax bill could await you

Retirement accounts that provide tax breaks have very specific rules that must be followed if you want to enjoy the financial rewards of those tax breaks.

One of these rules defines WHEN you're allowed to pull money from your retirement accounts. If you pull money too soon, you're at risk of being levied with a penalty by the IRS. There are several exceptions to this rule, such as paying for qualified higher education expenses or paying for expenses if you become permanently disabled.

In general, though, if you withdraw retirement funds before you reach age 59½, you'll be hit with a 10% penalty in addition to regular income taxes. In the April 2023 court case *Magdy A. Ghaly and Laila Ryad v. Commissioner*, the taxpayers learned this rule the hard way.

The Facts

In 2018, Mr. Ghaly took two distributions from his retirement account.

► Distribution #1: Withdrawal

Mr. Ghaly was laid off from his job, and in 2018, he withdrew money from his retirement account to provide for his family. He requested and received a withdrawal of \$71,147 from his retirement account. His retirement company provided him with a Form 1099-R indicating the withdrawal was taxable.

► Distribution #2: Deemed Distribution

In 2015, Mr. Ghaly took a loan from his retirement account. Because the loan followed certain IRS-approved guidelines, it was not considered a taxable distribution from his account that year. However, when Mr. Ghaly failed to repay that loan when it came due in 2018, it became a taxable distribution. His retirement company provided him with a 1099-R tax form for the deemed distribution.

Mr. Ghaly had not yet reached age 59½ before either amount was distributed.

Tax?!?



The Findings

In an attempt to restore those distributions to his account to avoid both the tax on the distributions and the early withdrawal penalty, he opened two retirement accounts in 2020 and made the maximum contributions allowed for each account.

The Tax Court ruled against the taxpayers, stating that the contributions Mr. Ghaly made in 2020 were irrelevant when determining if his 2018 distributions were taxable. Mr. Ghaly was required to pay income taxes on the amounts withdrawn (to the extent those distributions were taxable) and was assessed an additional 10% early withdrawal penalty.

The Lesson

If you are planning an early withdrawal from a retirement account, understand before making the withdrawal whether the 10% penalty applies to you. In Mr. Ghaly's case, he could have explored the substantially-equal periodic payment exception or withdrawn the money penalty free if used as a hardship to pay for his health insurance while unemployed. The lesson: please call if you have questions about an early withdrawal that you may be planning before you make it! ♦

IRS Update

IRS recommends reviewing estimated tax payments

If you earn or receive income that is not subject to tax withholding, such as self-employment income, or if you're an independent contractor, you should be paying your taxes quarterly to the IRS to avoid a possible underpayment penalty. The estimated tax payment due dates for the 2024 tax year are April 15th, June 17th, September 16th, and January 15th, 2025.

Also, if you owed taxes when you filed your 2023 return, you may also have taxes to pay when filing your 2024 return, especially if one or more of the following situations apply to you:

- You've itemized deductions in the past but are now taking the standard deduction
- Your household has two wage earners
- You are an employee with non-wage sources of income such as dividends
- You have a complex tax situation

Interest rates remain the same for first quarter of 2024

Interest rates for the first quarter in 2024 remain unchanged 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

April 15th

- 2023 individual income tax returns are due.
- First installment of 2024 individual estimated tax is due.

June 17th

- Second installment of 2024 individual estimated tax is due.

Trouble lurks behind 0% financing

Understanding the risks of financing with nothing down



Companies want to make it easy to buy their big ticket items, especially during times of economic uncertainty. A popular technique is to offer 0% financing when you buy furniture, electronics and other household items. You can also take matters into your own hands with a credit card that offers 0% APR on purchases, balances transferred to the card, or both.

While paying for goods and services with 0% interest may sound appealing, there are risks you'll face that you should be aware of before taking this step.

What's hiding behind 0% financing

Here are some of the potential problems hiding behind these 0% financing offers:

- **Special financing offers make it easier to overspend.** *Psychology Today* reported that credit card use can easily result in overspending, and the same is true for loans. The key is to understand the monthly payments you are committing to, and ensuring you can handle them. At the same time, try to

assess your purchase decision. Would you buy this item if the 0% offer was not available?

- **0% APR offers may come with deferred interest.** Hidden in the fine print of some 0% interest offers may lurk deferred interest charges. This means that while you're enjoying monthly payments with no interest, the interest charge accrues over time. If you miss a payment, have a late payment or haven't paid off the loan by the end of the 0% offer period, the accrued interest gets added to your unpaid balance. The key is to precisely understand what happens if you miss a payment or don't follow the 0% offer exactly as written...before you take the 0% offer.
- **The 0% offer may be impacting the price.** Remember, money has value and someone is paying the interest cost of the 0% financing. Usually the merchant is hiding the cost inside the price you are paying for the item.

What you can do

Before considering a 0% interest financing offer on your next purchase, do this:

- **Save up for large ticket purchases.** Instead of financing items and creating even more bills to pay each month, start saving for pricier purchases before you buy. Even better, leverage the value of your savings within higher interest savings account options that are now in excess of 4 percent.
- **Turn on your negotiating switch.** Whenever you see a 0% offer, there should be a discount available to you for paying upfront. Someone is paying the interest and it is probably going to be you if the financing cost is built into the price you are paying.
- **Pay on time!** Finally, if you do think the 0% option is a deal for you...set up auto payments. Most of these deals are unforgiving and punitive if you miss a payment, so automate them to avoid this possibility. ♦

Family financial goals for 2024



Here are some ideas to make 2024 the most financially rewarding year for your entire family.

- ✓ **Declutter for cash.** Go through every room of the house as a family and collect items that nobody uses or needs anymore. Sell these items through sales platforms, then use the cash to pay down debt or add to your emergency fund.
- ✓ **Work together to reduce food waste.** With inflation running high over the last few years and grocery prices on the rise, everyone in the family can do their part to reduce food spending. This means creating meal plans and shopping for groceries based on those plans, but it also means eating leftovers and cooking more at home instead of dining out.
- ✓ **Set up automatic savings.** Setting up automatic savings is another great way to make progress toward financial goals. You can set up your bank account to automatically transfer money to a dedicated savings account on a certain day each month, or on each payday.
- ✓ **Save for something fun.** Set a family savings goal for something to work toward, whether that's saving for a family vacation or building cash to purchase a backyard playground. Having a goal can help family members part with items they don't need but can sell, or to cut their spending to help reach a common goal.
- ✓ **Develop investing basics.** Set up online access for your own retirement accounts or taxable investment accounts so you can show your family the power of compound interest firsthand. You can even consider setting up investments for your kids. If they have earned income, for example, they can start investing with a Roth IRA. ♦

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