



# Newsletter

APRIL 2024

*Freddi Eberhart & Associates Inc. would like to thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We truly appreciate your referrals.*

## This Month:

### Upcoming dates:

#### April 15

- Individual income tax returns for 2023 are due
- First quarter 2024 estimated tax payments are due

If it seems like our tax code complicated and confusing, well, it's sort of true.

And Congress keeps adding to this complexity with what seems like an ever-growing list of what is and is not taxable. With the April filing deadline right around the corner, this month's newsletter has a fun quiz to test your knowledge about what our tax code says is subject to income taxes.

There are also some facts about when gift taxes are due and who pays them, converting the Traditional IRA to a ROTH, and what happens if you fail to take required minimum distributions from your IRA.

As always, feel free to pass this information on to anyone that may find it useful and call if you have any questions or concerns.

## Annual Tax Quiz - Is It Taxable?

The IRS seems to always have a surprise up its sleeve for the unsuspecting taxpayer. Here's a fun True or False quiz to test your knowledge of what's taxable. Enjoy!

- If a thief steals someone's property, he owes tax on the value of the stolen property.
- **True.** *But don't expect the person whose property was stolen to issue a Form 1099. Tax instructions tell you to list this as stolen property on your tax return. This part of the tax code is what famously put gangster Al Capone behind bars.*
- Scholarships are never taxable.

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## Annual Tax Quiz - Is It Taxable? (Cont'd)

- **False.** If you get scholarship money to cover tuition, fees and books, you pay no taxes. But if your scholarship also covers room and board, travel and other expenses, that portion of the award is taxable. Students who get financial aid in exchange for work must also pay tax on that money even if they use it to pay tuition.
- Minor gambling winnings are not taxable.
- **False.** When lady luck smiles on you, the tax collector typically doesn't. While virtually all gambling winnings are deemed taxable income, not all winnings are reported to the IRS. The IRS requires reporting of winnings at various thresholds depending on the game: \$1,200 or more from bingo or slot machines, or more than \$5,000, minus the wager, from a poker tournament. If reported, the payer will issue you a Form W-2G and report what you won to the IRS. The practical nature of keeping track of and claiming this minor income is a different matter entirely.
- If you lose your job and start collecting unemployment benefits, the IRS will cut you a tax break.
- **False.** The IRS considers unemployment income to be a replacement for your regular income, and is therefore taxable. (During the pandemic, the IRS was legislated to make this unemployment tax-free, but this was only for a limited time.) The good news is that not all states do the same.
- If someone forgives an amount of money that you owe them, you typically have to pay taxes on that amount.
- **True.** Debt cancelled or otherwise discharged for less than what you owe – credit cards, mortgages, loans and so on – is generally taxable income per the IRS. Exceptions can include student loans, debts discharged in bankruptcy, or amounts in specific mortgage foreclosures as defined in a special tax law. The creditor may send you a federal Form 1099-C in the amount of the cancelled debt, which means the money also gets reported to IRS.
- An agreement between two small businesses to get free hair cuts in exchange for mowing a lawn is not taxable.
- **False.** When you exchange services in lieu of cash in a formal arrangement, the fair market value of the goods and services are fully taxable. You should get an IRS Form 1099-B or the like showing the value of cash, property, services, credits or other items that you received from the barter. On the positive side, any expenses you incurred to hold up your end of a deal are typically deductible as a business expense.

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## When are Gift Taxes Due and Who Pays Them

Gift taxes are due on certain transfers of wealth. If and when gift taxes are due, the donor is liable for them. The recipient of the gift is not taxed. (Note that gifts to charity are not subject to gift taxes.)

The combined estate and gift exclusion for 2024 is \$13.61 million (up from \$12.92 in 2023). You're also entitled to make annual gifts up to \$18,000 in 2024 (up from \$17,000 in 2023) to as many individuals as you like without incurring a gift tax. The tax law lets you give away more than this annual limit in certain cases. For example, you can generally make unlimited gifts to your spouse. You can also pay an unlimited amount of medical or tuition expenses for another person as long as your payments are made directly to the institution.

Gifts beyond the limits indicated are subject to tax at a maximum rate of 40%. If this occurs, ask for clarification on how this should be reported.

## Should I Convert My Traditional IRA to a ROTH?

Roth IRAs are very attractive because once money is inside a Roth, it may never be taxed again. However, before you rush to convert your traditional IRA to a Roth, there are a number of factors you should consider.

- How much after-tax money will you end up with for retirement? You'll need to make some assumptions about your future tax rate, your retirement age, and your investment return. Then you'll have to run the numbers to see whether you'd end up with more money, after taxes, if you left it in your traditional IRA or if you converted to a Roth.
- Do you have enough cash to pay conversion taxes? When you convert, you'll owe regular income taxes on the amount you roll over to your Roth. If you have to sell outside investments to pay taxes on the rollover, you'll owe taxes on any gains from those sales as well. If you have to cash out part of your IRA to pay taxes, you'll be socked with a 10% penalty unless you are over 59½.
- How soon will you need the money? Generally, you cannot withdraw the earnings on the money within five years of the conversion without a penalty.
- Will the conversion income push your adjusted gross income to the point where it will cost you valuable tax benefits, such as certain deductions and tax credits?
- Will it push you into a higher tax bracket?

As you can see, deciding whether a Roth conversion is right for you involves careful planning.

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## Your Questions Answered

### When must I start withdrawing money from my IRA?

Upon turning age 73, you must begin withdrawing money from your traditional IRA as follows:

- Your first withdrawal can either be taken by December 31 of the year you turn age 73, or it can be postponed up until April 1 of the following year.
- Your second withdrawal must be taken by December 31 of the year after you turn age 73.
- In each subsequent year, you must withdraw at least the required minimum amount by December 31.

If you fail to take your required distribution on time, you'll face a penalty up to 25% on the amount that should have been withdrawn.

**Note:** There is no requirement to make withdrawals from a Roth IRA at age 73.

### What if I fail to take my required IRA distribution on time?

- You'll face a 25% penalty on the amount that should have been withdrawn. Fortunately your investment firm will typically send reminders and you can often ask for an abatement of the penalty. But why put yourself in that position? Develop a reminder system at the beginning of each year to ensure this does not happen to you. The good news is if you correct the missed RMD in a timely manner, the penalty may be reduced to 10%.

## Tax Day is Here!

*Last-minute details, tips and freebies*

With the individual tax-filing deadline on Monday, April 15th, now is the time to complete all filing arrangements and payments.

What follows is information typically provided in our filing instructions to you when the tax return is completed.

However, upon review, it makes sense to provide this information to everyone, whether you have filed or not. It is good information to know, so if you have not already done so, ask yourself these questions:

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## Tax Day is Here! (Cont'd)

1. **Did you sign your e-file authorization form?** IRS Form 8879 needs to be signed by you before your taxes can be e-filed. If filing jointly, your spouse needs to sign as well. If you haven't already, please return the signed form ASAP to ensure that your taxes can be e-filed on time. But don't sign it before reviewing the tax return. Remember, this signature means you agree with the accuracy of the tax return.
2. **Do you need more time to file?** If you are not ready to file your taxes before the initial April 15th deadline, you can file for a six-month extension. Be aware that it is only an extension of time to file — not an extension of time to pay taxes you owe. You still need to pay all taxes by April 15th!
3. **Do you owe money?** If yes, make your tax payment now! The IRS has several payment options on their website. If mailing a payment, include Form 1040-V and ensure the mail is postmarked on or before April 15th. Sending the payment by certified mail will ensure you have proof of a timely payment. Late payments, even by one day, are subject to IRS penalties and interest.
4. **Do you need to deposit funds in your IRA or HSA?** Did you claim an IRA or HSA contribution on your tax return? In order for the deduction to be valid for 2023, all deposits to those accounts need to be made by April 15th. Once completed, save proof of the contribution with your 2023 tax files.
5. **Do you need to make an estimated tax payment?** The first quarter estimated tax payment for 2024 is also due by April 15th. If you owe taxes for 2023, making 2024 estimated payments might make sense for you. A quick way to calculate a first quarter payment is to divide the taxes you paid in 2023 by four, then adjust this number for any paycheck withholdings. Send your payment along with Form 1040-ES to the IRS by April 15th. Then schedule a tax-planning meeting to determine the best approach for the remainder of the year.

If you do miss a deadline, file your return and pay the taxes as soon as you can to stop the accruing of interest and penalties.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

*This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.*