Newsletter

AUGUST 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:

September 2

- Labor Day

September 16

- Filing deadline for 2023 calendar-year S corporation and partnership tax returns on extension

- Due date for 3rd quarter installment of 2024 estimated income tax for individuals, calendar-year corporations, and calendar-year trusts & estates

Scammers are always scheming up new ways to steal your money. At the same time, the altruistic IRS is trying to protect you by staying one step ahead of the fraudsters. In this month's newsletter, read about the latest scams flagged by the IRS that you should be on the lookout for this summer.

Also in this edition, find out how IRA can help you save more, and the importance of proper record retention.

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

5 Little-Known IRA Opportunities You Should Know About

IRAs can be a powerful tool to lower your taxes while helping you save for retirement. Here are 5 little-known opportunities about IRAs that can help you and other family members save even more when contributing your IRAs.

1. **A nonworking spouse can have an IRA.** If your spouse doesn't work, you may still be able to open and contribute to an IRA for your spouse, assuming that you work and file a joint tax return. This can be a great way to help reduce your taxable income each year.

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5 Little-Known IRA Opportunities You Should Know About (Cont'd)

2. **Even children can have IRAs.** If your child has earned income, you can open and contribute to an IRA. Just make sure you can document the earnings. While your child can contribute their own earnings, many parents will help keep track of things like babysitting money, then match those earnings in either a traditional or Roth IRA. Often the Roth IRA is preferred, because the future earnings could be tax free! Your child's IRA is managed by an adult until the child is old enough for the account to be transferred into their name.

3. **You may still contribute to an IRA if you have a 401(k) or similar program at work.** As long as you do not exceed the income limits, you can have both an IRA as well as other types of retirement savings plans.

4. **Non-deductible contributions may be made.** If you exceed certain income levels, contributions to your IRA won't be able to reduce your taxable income for the year. But you may still want to make after-tax contributions to a non-deductible IRA, as the earnings can still grow tax-deferred.

5. **It's not just for retirement.** With traditional IRAs, if you withdraw funds before the age of 59 1/2 you may be subject to income tax AND an early withdrawal penalty. But there are exceptions to this rule, including withdrawals for a first time home purchase, major medical bills, college costs, birth and adoption expenses, and others. However, it is important to know the rules *BEFORE* you withdraw the funds.

Tax rules surrounding IRAs are vast and complex. But within the rules are numerous situations that if you know they exist, can help you plan for a more tax-efficient future.

Beware of Scammers Targeting Your Tax Info, Warns IRS

Social media is an easy way for scammers and others to try encouraging people to pursue some really bad ideas, and that includes ways to magically increase your tax refund.

– IRS Commissioner Danny Werfel

Tax scammers continue to become more sophisticated, which means it's more important than ever to pay attention to any person or message asking you to provide confidential information. Here are several of the more prevalent scams to be on the lookout for, according to the IRS.

- **Phishing and smishing.** Taxpayers continue to be bombarded with email and text scams from

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Beware of Scammers Targeting Your Tax Info, Warns IRS (Cont'd)

fraudsters attempting to lure you into providing valuable personal and financial information that can lead to identity theft. Phishing involves fraudsters sending emails claiming to come from the IRS, while smishing uses text messaging and alarming language such as ***Your account has now been put on hold!***

What you can do: *Never respond to phishing and smishing messages, and never click on a link! Report all unsolicited emails, including the full email headers, claiming to be from the IRS to phishing@irs.gov.*

- **Online help to create an IRS account.** A scammer may offer to help you set up an online account on www.irs.gov. While the IRS's online account tool can provide convenient access to your tax information, it's also a valuable source of information for identity thieves who use information from your account to submit fraudulent tax returns using your name in order to get a big refund.

  What you can do: *Schedule an appointment with someone you trust if you need help creating an online IRS account.*

- **Fake charities asking for donations.** Scammers masquerading as charitable organizations try to lure you into making a contribution after natural disasters and other publicized tragedies. Scammers also use fake charities to swipe personal and financial information from you, in addition to targeting certain groups such as senior citizens.

  What you can do: *Visit www.irs.gov, then search for Tax-Exempt Organization Search Tool. Use this tool to confirm that a charity to whom you want to donate is a legitimate organization registered with the IRS.*

- **Fake tax advice and AI tools.** Social media routinely circulates inaccurate and misleading tax information. These articles and videos share wildly inaccurate tax advice, including some that involve urging people to misuse common tax documents such as Form W-2 or Form 1099. They will make it especially convincing by using AI as a buzz word.

  What you can do: *Don't turn to the internet for tax advice. Remember, AI-generated ideas can also pull in inaccurate information as well!*

It's easy to fall victim to tax scams. So stay vigilant and if you see a scam, let everyone know. It's with increased awareness that we can decrease the number of scam victims.

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The Lost Art of Tracking Home Improvements

How a tax law makes us sloppy and creates a tax risk

One of the more popular provisions in the tax code is the $250,000 capital gain exclusion ($500,000 for a married couple) of any profit made when selling your home. As long as you follow the rules, most home sales transactions are not a taxable event.

- But what if the tax law is changed?
- What if you rent out your home?
- What if you cannot prove the cost of your home?

Your best defense to a potentially expensive tax surprise in your future is proper record retention.

The problem

The gain exclusion is so high, that many of us are no longer keeping track of the true cost of our home. This mistake can be costly. Remember, this gain exclusion still requires documentation to support the tax benefit.

The calculation

To calculate your home sale gain take the sales price received for your home and subtract your basis. This "basis" is the original cost of your home including closing costs adjusted by the cost of any improvements you have made in your home. You might also have a reduction in home value due to prior damage or casualty losses. As long as the home sold is owned by you as your principal residence in at least two of the last five years, you can usually take advantage of the capital gain exclusion on your tax return.

To keep the tax surprise away

Always keep documents that support calculating the true cost of your home. This should include:

- Closing documents from the original home purchase
- All legal documents
- Canceled checks and invoices from any home improvements

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The Lost Art of Tracking Home Improvements (Cont'd)

- Closing documents supporting the value of the sale of the home

There are some cases when you should pay special attention to keeping track of your home value.

You have a home office. When a home office is involved, it can impact the calculation of the capital gain exclusion. This is especially true if you depreciated part of your home for business use.

You have lived in your home for a long time. Most homes will rise in value. The longer you stay in your home the more likely the value of your home will rise over time. For example, a sizable gain can occur when an elderly single parent sells their home after living in it for over 50 years.

You live in a major metropolitan area. Certain areas of the country are known to rapidly increase in value.

You rent out your home. Any time part of your home is depreciated, it can impact the calculation for available gain exclusion. Home rental also can impact the residency requirement calculation to receive the home gain tax exclusion.

You recently sold another home. The home sale gain exclusion can only be used once every two years. If you recently sold a home with a gain, keeping all documents related to your new home will be critical.

The best way to protect this tax code benefit is to keep all home-related documents that support calculating the cost of your property. Please call if you wish to discuss your situation.

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.