THE ADVISER

WHITE & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS

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ROTH 401(K) ROLLOVERS

If you are currently changing jobs, moving on from your current employer that has a 401(k) with the Roth component, consider a rollover. In fact, this is the optimal solution. Upon leaving your current job, you can rollover your 401(k) Roth component into a Roth IRA in your name. The pre-taxed component can be rolled over to a Traditional Rollover IRA. Keep in mind that if your employer has put any match into your 401(k), it is considered part of the pre-taxed component. We recommend rolling over both the Roth component and other pre-taxed components when changing employers.

DEBT COLLECTORS ON SOCIAL MEDIA

Since November 2021, debt collectors can contact debtors using social media such as Facebook, LinkedIn and Twitter. According to the Consumer Financial Protection Bureau (CFPB) there are strict regulations for debt collectors doing this. Debt collectors cannot hide their identity when they request to add anyone as a contact. All messages to you must be private and cannot be posted publicly. Debtors must also be given a simple way to opt-out from receiving messages from a debt collector. As with all methods of contact, debt collectors do not have a license to abuse or harass debtors, who can report a complaint to the CFPB at consumerfinance.gov/complaint or by calling (855)411-2372.

IMPORTANT DUE DATES

Within 3 days of payroll	-Due dates of employer's Social Security and withholding tax deposits by EFTPS if the IRS has determined you pay semi-weekly
June 15, 2022	**-Due date of 2022 Estimated Tax Payment No. 2**
June 15, 2022 July 15, 2022 Aug. 15, 2022 Sept. 15, 2022	-Due dates of employer's Social Security and withholding tax deposits by EFTPS if the IRS has determined you pay monthly
June 27, 2022 July 25, 2022 Aug. 25, 2022 Sept. 25, 2022	-Due dates of monthly state excise tax reports
Aug. 1, 2022	-Due date of Retirement Plan Form 5500 -Due date of Form 940 deposit for 2nd quarter 2022 -Due date of employer's payroll tax reports, Form 941, Unemployment, State L&I and State Paid Family Medical Leave reports -Due date for 2nd quarter 2022 state excise tax report
Aug. 31, 2022	-Due date of Annual Heavy Vehicle Use Tax Form 2290
Sept. 15, 2022	**-Due date of 2022 Estimated Tax Payment No. 3** -Due date of Form 1065 (Partnership) and Form 1120S (S Corporation) if a 6-month extension was filed on March 15, 2022 and Form 1120 (Corporation) if a 5-month extension was filed on April 18, 2022
Sept. 30, 2022	-Due date of Form 1041 (Trust and Estate) if an extension was filed on April 18, 2022
Oct 3, 2022	**Time to start pre-year end tax planning!**

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TIDBITS

- In the fourth quarter of 2021, total household debt in the U.S. reached $15.6 trillion and credit card debt alone grew by $52 billion.
- U.S. government debt at the end of January 2022 was $30.1 trillion.
- For comparison, 1 trillion seconds is equal to 31,709 years while 1 billion seconds converts to only 31.7 years!
- By the year 2030, over 20% of the U.S. population will be over 65 years old.
- Currently, over 10,000 baby boomers turn 65 each day becoming eligible for Medicare.
- A ten-year-old child today has a 50% chance of living to be over 103 years old.
- Over 42% of current U.S. retirees did not consider how income taxes would affect their retirement income. As a rule of thumb, count on about 25% of retirement income going to pay taxes.
- Only 42% of financial advisers are being compensated by fees only. The other 58% are compensated by fees and/or commissions only.
- Only 30% of Americans use a paid financial adviser.
- 42% of Americans say the pandemic has made filing taxes more complicated. Income tax preparers say the U.S. government and the pandemic have made filing taxes more complicated.

THE EFFECTS OF LOSING A SPOUSE

The death of a spouse is one of the most difficult things imaginable. Besides the emotional toll, surviving spouses typically confront financial issues, which often trigger tax-related questions and consequences. Some of them are fairly straightforward, while others can be tricky. Many advise surviving spouses not to make major financial changes immediately and it is most important to evaluate changes and their impact from a tax perspective.

The loss of income after a spouse passes can have, and usually does have, tax implications. If the loss of income, for example the decedent's Social Security, means the need to tap into a retirement account, the taxes may be less than anticipated because lower income may mean you are in a lower tax bracket. Less income may mean the surviving spouse qualifies for certain tax deductions or credits that have had income caps or phase-out rules.

Eventually, every surviving spouse has a new filing status. A joint federal tax return is allowed for the year the deceased spouse dies if the surviving spouse does not remarry. The qualifying widow(er) status may be an option for two more years if there is a dependent child. After that a surviving spouse who does not remarry must file as a single taxpayer or head of household with a qualifying child, which usually means less favorable tax rates and a lower standard deduction.

Inheriting a traditional IRA can also affect the surviving spouse's taxes. An inheriting spouse can be designated as the account owner or roll the funds into their own retirement account, or be treated as a beneficiary. That decision will affect when required minimum distributions need or have to be made which affects the surviving spouse's taxable income. Required minimum distributions (RMD) are required when the surviving spouse reaches age 72.

As either the designated owner of the original account or the owner of the account with rolled-over funds, the surviving spouse takes RMDs based on their own life expectancy. If the third option, staying as the IRA's beneficiary, is chosen, RMDs are based on the life expectancy of the deceased spouse. It is normally best to rollover the inherited IRA fund into the surviving spouse's IRA. Consolidation means simplification which makes for easier and less complicated management.

A surviving spouse also receives a stepped-up tax basis (tax cost) on all other inherited property. Washington state is a community property state which means the deceased spouse's half interest in the property plus the surviving spouse's half interest in the property (both halves equal 100%) receive the stepped-up tax basis. The new tax basis is the fair market value of 100% of the inherited property.

TAX RETURNS THAT CAN CATCH THE IRS'S EYE

Most people that have been audited by the IRS classify it as desirable as a root canal. Currently, the IRS is auditing significantly less than 1% of all individual tax returns, with the trend toward fewer audits each year. More than 75% of the audits that do occur are done solely by mail, White & Company, PC, has not seen an IRS agent for over a decade. The audits currently focus on comparing documentation to information on your tax return.

Still, the chances of winning the audit lottery escalate under certain circumstances. Higher-income taxpayers have a greater audit risk mainly because they take bigger deductions and their returns are generally more complex. Plus changes usually result in more taxes collected. There are a few categories (four listed here) that usually interest the IRS.

A return that is missing income reported to the IRS. Failing to report all of your taxable income will draw IRS scrutiny, especially if that income is reported to you and the IRS on a W-2 or 1099. The IRS gets copies of these forms, and its computers are pretty good at cross-checking all the numbers with your return. Other items omitted on your tax return where the IRS also has received information from the vendor includes gambling winnings, foreign bank accounts which can require FINCEN Form 114 and income from sale of assets and virtual currency transactions. Foreign bank accounts and virtual currency transactions really excite the IRS. They are very interested in Americans with money stashed outside of the U.S. and the IRS is using significant resources to hunt down taxpayers with virtual currency accounts.

Any returns that have large deductions or losses compared to your income are the next red flag. For example, writing off a large medical bill or charitable gift on Schedule A may draw unwanted IRS attention. The same is true if you report a big loss from the sale of rental property or other investments, or claim large rental losses on Schedule E. The size of the deduction or loss is not the only trigger, it is when the amount is compared to the income you currently have or have had that completes the trigger.

If you are self-employed or operating a side business you are already on IRS radar. A Schedule C in your return is a gold mine for the IRS! IRS agents know from experience that self-employed people sometimes claim excessive deductions and do not report all of their income. Some of the IRS's favorite returns:

1. Individuals who report $100,000 or more of gross receipts on Schedule C.
2. Cash-intensive businesses, such as salons, bars and casinos.
3. Business owners who claim a substantial loss on Schedule C and have income from other sources, such as wages or pensions.
4. Individuals who have lots of other income and multiple years of large losses from an activity that might be a hobby.

The misuse of retirement accounts rules and requirements is a current emphasis at the IRS. The IRS knows that some individuals age 72 and older are not taking their annual required minimum distributions from IRAs, 401(k)s and other retirement plans and is looking to crack down on these people. Also on the IRS's radar are early retirees and others who take distributions before age 59-1/2 and do not qualify for an exception to the 10% penalty on these early withdrawals.

SKIP COMPLETING THE FAFSA - MISS OUT ON COLLEGE AID

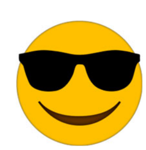
Approximately 1.7 million high school graduates that planned on attending college did not file the Free Application for Federal Student Aid (FAFSA) for the 2020-2021 school year. The total high school graduates planning to go to college was approximately 3.5 million. Roughly half of the students who did not apply would have been eligible for federal Pell Grants, which are aimed at low-income and minority students and generally do not need to be repaid. The average grant would have been approximately $4,500. Experts estimate that the high school class of 2021 left about $3.7 billion dollars in unclaimed Pell Grants. The FAFSA form is long and annoying to fill out, but it is the portal to most types of college financial aid.

TAX PREPARATION MATH ERRORS

2021 was a record setting year for what the IRS classified as math errors on 2020 tax returns. Correction notices were sent out to correct math errors or disallow returns requesting more or less Economic Impact Payments (EIP). Over 14.5 million notices were mailed out, compared to under 1 million notices for 2020. Most math errors by individuals related to the EIP. This year is not expected to be much better. IRS officials expect lots of mistakes will be made on 1040s filed for 2021 by taxpayers who got the third stimulus payment or who received monthly advance payments of the expanded 2021 child tax credit.

CRYPTOCURRENCIES IN RETIREMENT ACCOUNTS

The Department of Labor (DOL) issued an advisory on cryptocurrency investment options by fiduciaries of 401(k)s and other workplace retirement plans governed by ERISA federal pension law. Per DOL, cryptocurrency investing is speculative and volatile and has risk issues involving fraud, theft and loss. DOL says it expects to open an investigation of plans that offer participants investments in cryptocurrencies. It will ask fiduciaries to demonstrate how they met their required duties of prudence and loyalty when choosing a cryptocurrency investment option for plan participants.



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SERVICE GUARANTEE

Our work is guaranteed to the complete satisfaction of the customer. If the customer is not completely satisfied with the services performed by White & Company, PC we will, at the option of the customer, either refund the fee or accept a portion of the fee that reflects the customer's level of satisfaction.

June 15, 2022

*****Our newsletter is available on our website whitecocpa.com. Please feel free to take a look around and send us a message with any questions or sign a friend up for the newsletter!***

RETIREMENT SAVINGS: HOW MUCH SHOULD YOU SAVE?

The amount you need to have saved up by the time you retire depends on several factors. The two big ones are when you want to retire and what you want your lifestyle to look like in retirement.

People's views of what they want to do in their second chapter varies very drastically. After all, traveling the world will cost much more than sitting on the couch and reading books from the library.

But you do not have to be certain about your future to make a plan. If you want to have a lifestyle in your retirement consistent with the one you have during your career, a good rule of thumb is to try to save 10 times your current income by the time you are 67. That means saving one times your salary by the time you are 30, 3 times your salary by age 40, six times your salary by age 50 and eight times your salary by age 60. Inflation and how long it lasts will impact these amounts unless your income increases.

Keep in mind that all the planning in the world is not going to make up for unexpected events, like losing a job, getting a divorce or having health problems. Have a plan and work toward a goal, but recognize that it is okay if it goes off track. When that happens, reassess your income, savings, future outlook and goals and adjust your plan as needed. Maybe you should push your retirement date out, for example, to save for a few more years. As with all plans, you should review this annually.

If you are struggling with making a plan on your own, you might want to hire a financial adviser from White & Company Financial Planning, Inc. Call to schedule an appointment at 509-837-6700.

BEWARE OF THIS IN ANNUITIES

Deferred annuities, which start paying at a future date arranged with the issuer, typically have a surrender charge for taking money out early. Such charges typically decrease with time. Example: For an annuity with a 10-year surrender period, taking money out the first year after buying it may cost you 10% on the money taken out, 9% on money taken out the second year, 8% on money taken out the third year. As with IRAs and 401(k) plans, annuity income withdrawn before age 59-1/2 may incur a 10% federal tax penalty, in addition to the surrender charge.