THE ADVISER

WHITE & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS

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INSIDE.....

A REMINDER FROM OUR JUST-COMPLETED TAX SEASON

If you made a qualified charitable distribution (QCD) from your IRA in 2022, the 1099-R that you received did not reflect the QCD. It showed only the distribution because IRA custodians lack firsthand knowledge to discern whether a particular payout from the traditional IRA met the QCD rules.

On your Form 1040, the total amount of IRA distributions shown on the 1099-R is on line 4a. Then the QCD is subtracted and the net, even if $0 is reported on line 4b.

It is the taxpayer's responsibility to inform the tax return preparer of the amount of qualifying QCD so the taxpayer does not pay tax on that amount. Also, remember the QCD amount cannot be deducted as a charitable contribution but it is the taxpayer's responsibility to obtain from the 501(c)(3) a charitable receipt stating no goods or services were provided. The receipt is needed by the taxpayer before the tax return is filed.

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
Apr. 18 2023 May 15, 2023 June 15, 2023	-Due dates of employer's Social Security and withholding tax deposits by EFTPS if the IRS has determined you pay monthly
Apr. 18, 2023	**-Due date of 2023 Estimated Tax Payment No. 1** -Due date for 2022 Form 1041 Estate and Trust tax returns -Due date for 2022 Form 1120 Corporation income tax returns -Due date of 2022 Form 1040 individual income tax returns. An extension to file your return by October 16, 2023 can be filed. **However, if you owe tax, that amount has to be paid when the extension is filed or penalties and interest will apply.** -Due date for all IRA and HSA contributions deducted on your 2022 tax return. -SEP, SIMPLE and profit sharing contributions are not due until the extended due date to file your return. It can be wise to extend your tax return in case you change your mind on the amount of your contributions.
Apr. 25, 2023 May 25, 2023 June 26, 2023	-Due dates of monthly state excise tax reports
May 1, 2023	-Due date of Form 940 deposit for 1st quarter 2023 -Due date of employer's payroll tax reports, Form 941, Unemployment, State L&I and State Paid Family Medical Leave reports
June 15, 2023	**Due date of 2023 Estimated Tax Payment No. 2**

Ivan White, CFP, CPA, PFS
Lucinda Cortez, Staff Accountant

James Eric Parker, CPA
Greg Vander Top, Staff Accountant
Hannah White, Staff Accountant

Tom White, CFP, CPA, PFS
Teri White, Bookkeeper
Misti Wiederspohn, Office Manager

TIDBITS

- Ransomware hackers were paid $1.2 billion by victims in 2021, up from $416 million in 2020. Malware transactions increased from 487 in 2020 to 1,489 in 2021. Most likely the hackers are not paying income tax on the $1.2 billion.
- The IRS says by March 1, 2023 it processed all electronically filed 2021 returns but is still working on 260,000 paper filed returns from that same year.
- If you buy one cappuccino each week day, at a nationwide coffee stand, with the average cost of $4.76, you will spend $1,236 annually. The average cost of a cup of coffee brewed at home is 20 cents per cup or $52 annually.
- Over the past three years, the national median sale price of existing homes jumped nearly 40%.
- SECURE Act 2.0 has over 90 provisions, some take effect this year. Others are delayed to 2024, 2025, 2026 and even 2027.
- The public school system in 85 of 100 of the largest school districts lost enrollment of approximately one million students between 2019 and 2021. With a students cost of between $6,000 and $10,000, this should mean tax cuts of $6 billion to $10 billion. Do not hold your breath!
- Less than 6% of plastic water bottles are recycled despite consumer efforts to be environmentally friendly.

MORE FROM SECURE ACT 2.0 AFFECTING RETIREMENT

Recently Congress raised the age for a Required Minimum Distribution (RMD) from 70-1/2 to 72, the SECURE Act 2.0 raises it to 73 for 2023 and 75 on January 1, 2033. This allows retirees to get several more years of growth in their retirement accounts. But from a tax planner's perspective, this could be a tax trap if you have a large nest egg. When the RMDs are required you will have more funds, and a shorter life expectancy, therefore higher RMDs. The tax savvy approach: reduce the account value before RMD years, take advantage of our low rates until the end of 2025.

You can now choose where your employer's matching dollars go. If the employer allows, employees can now elect to have their employer-matching dollars go into a Roth account. This will apply to 401(k) plans if they have the Roth provision and to SIMPLE plans. However, the employee is currently taxed on the employer match amount as wages.

For the SIMPLE plan, you will now be allowed to put your salary deferral amount (maximum $19,000 for an individual over age 50 for 2023, under age 50 is $15,500) into a Roth IRA. The IRS must issue more guidance before this can happen. The salary deferral amount into a Roth under a 401(k) plan, $30,000 over age 50 and $22,500 under age 50. Keep in mind, all Roth contributions are taxable when made.

There is a technical glitch in the SECURE Act 2.0 and if the Treasury Department cannot resolve the error by giving more guidance, Congress will need to act. The glitch involves 401(k) catch-up contributions by people age 50 and older. CPAs have pointed out that bill drafters inadvertently left out the catch-up contributions entirely for 2023, and if someone in Congress read the bill, they missed the error.

One helpful provision for those who have lost track of a retirement account is the creation of a searchable data base to enable you to find it. The retirement savings "lost and found" will be housed at the Department of Labor and be created within the next two years. It is estimated millions of 401(k) accounts have been lost by employees, amounting to nearly $1 trillion in unclaimed retirement benefits.

SECURE ACT 2.0 IMPACT ON UNDER AGE 59-1/2

Traditional 401(k) plans and IRAs provide a tax break for retirement savers, but with a catch. If you need the money before you are 59-1/2, you will usually have to pay taxes on the money, plus a 10% early-withdrawal penalty. SECURE Act 2.0 includes several provisions that will waive the 10% penalty for some early withdrawals. You will still have to pay federal income taxes, and in many cases state taxes, on the withdrawals. Provisions that waive the penalty are:

- Up to $1,000 per year for personal or family emergency expenses with the option of repaying the amount within three years.
- Up to $10,000 or 50% of the account's vested balance, whichever is less, for victims of domestic abuse. Individuals have the option of repaying the money in three years; if they do, income taxes will be repaid on the withdrawn funds.
- Up to $22,000 for individuals who suffer an economic loss

as a result of a federally declared disaster. The withdrawal can be repaid in three years, or taxes can be spread over three years. The change is effective for disasters that occurred on or after January 26, 2021.

- Withdrawals (no specified limit) for an individual who is suffering from a terminal illness.
- Up to $2,500 a year (starting in 2025) to pay for premiums for qualified long-term-care insurance policies. Unfortunately, this change is unlikely to encourage more Americans to purchase long-term-care insurance. Most individuals buy long-term-care insurance when they are between the ages of 55 and 60, which means they would only benefit from the waiver for a few years, if at all, because there is no penalty on withdrawals after age 59-1/2. In addition, after you pay income taxes on the money, you could have a significantly reduced amount available for insurance premiums.

HOUSEHOLD EMPLOYEES

If you are planning to pay household help wages of $2,600 or more in 2023 you must report the wages. If you are required to file a federal income tax return (Form 1040 or Form 1040-SR), file Schedule H (Form 1040), Household Employment Taxes, with the return and report any wages and household employment taxes. Report any federal unemployment (FUTA) tax on Schedule H (Form 1040) if you paid total cash wages of $1,000 or more in any calendar quarter of 2022 or 2023 to household employees. Also, report any income tax you withheld for your household employees. For more-information, get IRS Publication 926 or call White & Company at 509-837-6700.

UNDERPAYMENT OF TAX PENALTIES

The underpayment of tax penalty applies to individuals, estates and trusts. The penalty applies if your return shows more than $1,000 of tax owed or you have not paid at least 90% of the tax shown on your current return when filed or one of the rule exceptions applies.

On January 1, 2023, the IRS raised the penalty rate to 7%. The IRS adjusts this rate quarterly to be 3% over the federal short-term rate.

To avoid the penalty, wage earners can adjust their withholding and non-wage earners are able to pay estimated tax payments.

If possible taxpayers should try to avoid this penalty and other penalties, the IRS collected $38.3 billion in penalties (not taxes) during the fiscal year 2021.

A POSSIBLE TAX INCREASE FOR THE FUTURE TO CONSIDER

Most individual tax provisions in the 2017 tax cut and reform law expire at the end of 2025. The 2017 changes include reduced tax rates, higher tax brackets, higher standard deductions, repeal of personal exemptions, pared-back Schedule A itemized deductions, the 20% write-off for owners of pass-throughs and the higher estate tax exemption. Unless Congress acts before the end of 2025, everyone will pay more in taxes. Most likely action by Congress will depend on the 2024 elections and nothing will be done before December 2025 or possibly January 2026. A few changes affecting individuals are permanent. Among them: Repeal of the penalties under Obamacare's individual mandate for post-2018 years. Allowing tax-free distributions from 529 college savings accounts of up to $10,000 per student per year to help pay tuition for K-12 education. This $10,000 annual cap does not apply to 529 plan withdrawals to pay for college. Plus the alimony changes, which made alimony paid pursuant to post-2018 divorce or separation agreements nondeductible to the payer and nontaxable to the payee.

WHERE ARE MORTGAGE RATES HEADED?

After basically five-plus years of low home mortgages, inflation hit in 2022 and the rates climbed to over 7% on 30-year fixed rate loans. Luckily the rate has not reached the late 1970's rate of 12% during the last high inflation period.

The good news (according to the National Association of Realtors) rates have peaked. Fannie Mae predicts 30-year fixed rates will edge down this year, dropping to 6% by the fourth quarter.

If you are thinking about buying a home this year, be sure to shop around because lenders charge for rates and fees can vary widely. According to Freddie Mac research, borrowers save an average of $1,500 over the life of their mortgage by getting two rate quotes instead of just one, and they save an average of about $3,000 by getting five quotes. But 36% of 2021 home buyers received only one mortgage quote, a Fannie Mae survey found. Shopping around could save you even more money when rates are high.

WHITE & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
910 FRANKLIN AVE SUITE 3
SUNNYSIDE, WA 98944
TELEPHONE (509) 837-6700
Fax (509) 837-8151 or email advisers@whitecocpa.com
www.whitecocpa.com

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.

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THINGS TO KNOW WHEN BUYING INSURANCE

If you have ever applied for life insurance, you likely were subjected to medical tests and were required to fill out a lengthy questionnaire about your health history, hobbies and habits. After all those tests and questions, you probably thought that the insurance company must have all the information necessary to predict your longevity and price your life insurance policy accordingly but, surprisingly, it did not.

Despite all the information life insurers collect and statisticians and software they use to analyze it, life insurance consumers still somehow have a better sense of their own likely longevity than insurers do. Insurance companies know this issue, so to protect themselves, they set premiums on the assumption that every applicant will die somewhat sooner than the medical tests and answers to their questions predict. This makes insurance overpriced for consumers who simply want it for peace of mind or financial-planning purposes.

If you are currently or plan to be a life insurance shopper but do not expect to die anytime soon (this probably applies to most), select a policy that has a waiting period before death benefits will be paid. Life insurance products such as these usually offer better terms.

Similarly, for almost all types of insurance, choosing a policy that signals to insurers that you do not expect to make many claims can lead to significantly lower rates. Insurers tend to offer the best terms to home and auto insurance shoppers who select policies with large deductibles.

Not only do large deductibles save the insurance company money, they also signal that the insured does not expect to make claims, especially small impractical claims.