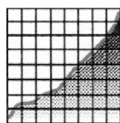
THE ADVISER



WHITE & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS

L, No. 3
June 17, 2024

INSIDE.....

Tidbits……………………………………………...2
Sale of Your Personal Residence……………………..…..2
Check on Designated Beneficiaries………………….. 2
Tax-Efficiency and Investing….………………..…....2
Withholding FIT and Your RMD……………………..3
The 12b-1 Fee in a Mutual Fund……………..…....…3
Medicare Premiums Can Be Deducted………..……...3
A Reminder…………………………………………...4
Divorce, IRAs and QDROs…………………………...4

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 17, 2024	-**Due date of 2024 Estimated Tax Payment No. 2**
June 17, 2024 July 15, 2024 Aug. 15, 2024 Sept. 16, 2024	-Due dates of employer's Social Security and withholding tax deposits by EFTPS if the IRS has determined you pay monthly
June 25, 2024 July 25, 2024 Aug. 26, 2024 Sept. 25, 2024	-Due dates of monthly state excise tax reports
July 31, 2024	-Due date of Retirement Plan Form 5500 -Due date of Form 940 deposit for 2nd quarter 2024 -Due date of employer's payroll tax reports, Form 941, Unemployment, State L&I, State Paid Family Medical Leave and WA Cares reports -Due date for 2nd quarter 2024 state excise tax report
Sept. 2, 2024	-Due date of Annual Heavy Vehicle Use Tax Form 2290
Sept. 16, 2024	**-Due date of 2024 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, 2024 and Form 1120 (Corporation) if a 5-month extension was filed on April 15, 2024
Sept. 30, 2024	-Due date of Form 1041 (Trust and Estate) if an extension was filed on April 15, 2024
Oct 1, 2024	-**Time to start pre-year end tax planning!**

HOW TO HANDLE TAX IDENTITY THEFT

If someone files a tax return in your name, you probably will not find out until your legitimate return is rejected. If that happens, immediately file a paper return and attach Form 14039, Identity Theft Affidavit, to it. File a police report, the police are unlikely to find the identity thief, but the report may help you fight debt-collection efforts resulting from the phony return. Also file a report with the Federal Trade Commission at IdentityTheft.gov. Use IRS Form 4506-F to get a copy of the tax return that the scammer filed. Check your credit report and account statements for further evidence of fraud. Put a credit freeze on your accounts with Equifax, Experian and TransUnion.

INTEREST RATES

Today's interest rates are not really high. They feel high because rates had been unusually low for nearly 15 years. From a historical perspective, today's rates are close to normal. As of January 2024, the federal funds rate was 5.25% to 5.5%, roughly in line with the yearly average of 5.42% since 1971.

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TIDBITS

- According to the most current data, ransomware hackers were paid $1.1 billion by victims in 2023, up from $567 million in 2022.
- The total number of malware transactions skyrocketed from 487 in 2022 to 1,489 in 2023.
- Student loan debt as of the first quarter of 2023 was $1.77 trillion.
- 54% of students that graduate with a Bachelor's degree have student loans.
- About 58% of U.S. households currently own stocks according to the Federal Reserve's most recent survey of consumer finances. This is the highest percentage in the survey's history and includes both direct holdings and indirect holdings such as retirement accounts. Contrast this to 1962 when only about 23% of U.S. households owned stock and were mainly the richest 23%.
- The average divorce costs $15,000 to $20,000, but some exceed $100,000 and basically there is no tax deduction for any of the costs.
- The IRS is again sending out automated collection notices for overdue taxes. These notices were halted in 2022 as it was working through its backlog of returns and correspondence.
- Assets in money market funds reached an all-time high of $2.5 trillion in 2024 compared to $1.2 trillion in 2020.
- Just 10% of Americans who have not retired but are over 62 say they plan to wait to age 70 to receive their maximum Social Security benefits.
- Of potential retirees age 60-62, 40% plan on claiming Social Security benefits at age 62.
- 34% of investors 58 years old or older and 49% of investors 41 years or older were concerned about environmental issues in 2023 per Stanford University and Hoover Institute.

SALE OF YOUR PERSONAL RESIDENCE

Most of the gain on the sale of your personal residence is not taxed because of the home sale exclusion. If you have owned and lived in your primary home for at least two out of the last five years before the sale date, up to $250,000 of the gain for single filers or $500,000 of gain for joint filers is excluded or tax-free. Any gain in excess is taxed at preferential long-term capital gains rates. Many homeowners will not crack the $250,000/$500,000 gain exclusion limits. But those living in pricey areas or who have owned their homes a long time may. If you are in this position, you should know what figures go into your home basis so you do not pay more tax than necessary. In calculating gain or loss from a home sale, start with the selling price and subtract selling expenses and the adjusted tax basis of the home. As you can see, the higher the tax basis, the lower the gain from the sale.

Figuring tax basis starts out easy. Begin with what you paid for the home and add in certain settlement fees. Tracking these costs is simple if you kept your settlement sheet from the purchase. Your home's tax basis does not stay static over the years that you own it. Some common adjustments to tax basis are additions and improvements. The cost of the additions made to your home and improvements that add to its value, prolong its useful life, or adapt it to new uses will increase your home's basis. Examples of big-ticket items include adding a room, installing new air conditioning, renovating a kitchen, finishing a basement, or putting in new landscaping or a pool. Smaller-ticket capital improvements also hike basis. These include new doors and windows, duct and furnace work, built-in appliances, water heaters and more. Repairs, maintenance and improvements that are necessary to keep your residence in good condition but do not add value or prolong its life generally do not increase tax basis.

Homeowners who keep good records will find it easier to calculate tax basis. It is best to keep all your major home improvement receipts and invoices in one folder. If you did not keep these records, estimate the costs by looking at old bank statements, or call the company that originally did the remodeling or put in the upgrade.

CHECK ON DESIGNATED BENEFICIARIES

Review your retirement plan beneficiaries if you have not done so recently. You can help avoid unintended consequences by updating beneficiary designations of your 401(k) or 403(b) plans, annuities, pensions, life insurance policies and IRAs to account for life changes such as marriage, divorce or the death of a spouse or other listed beneficiary. While you are at it, review the beneficiaries listed in your will and taxable accounts. Remember that your will does not control the beneficiary of retirement and life insurance types of accounts, the only beneficiary that counts is the beneficiary on the account.

TAX-EFFICIENCY AND INVESTING

Taxes should not be the primary driver of your investment strategy but it makes sense to take advantage of opportunities to manage, defer, and reduce taxes. This is the first article of three covering how to manage taxes, how to defer taxes and reducing taxes when investing. The following six concepts should be considered in your ongoing portfolio management process.

1. Tax losses: A loss on the sale of a security can be used to off-

set any realized investment gains, and then up to $3,000 of taxable income annually. Some tax-loss harvesting strategies try to take advantage of losses for their tax benefits when rebalancing a portfolio, but be sure to comply with Internal Revenue Service rules on wash sales and the tax treatment of gains and losses.

2. Loss carryforwards: In most cases, if your realized losses exceed the limits for deductions in the year they occur, the tax losses can be "carried forward" to offset future realized investment gains. All gains and losses are "on paper" until you sell the investment.
3. Capital gains: Securities held for more than 12 months before sold are taxed as long-term gains or losses with a top federal rate of 23.8%, versus 40.8% for short-term gains. Being conscious of holding periods is a simple way to avoid paying higher tax rates. Taxes are, of course, only one consideration. It is important to consider the risk and return expectations for each investment before trading.
4. Fund distributions: Mutual funds distribute earnings from interest, dividends, and capital gains every year. Shareholders are likely to incur a tax liability if they own the fund on the date of record for the distribution in a taxable account, regardless of how long they have held the fund. Therefore, mutual fund investors considering buying or selling a fund may want to consider the date of the distribution.
5. Tax-exempt securities: Tax treatment for different types of investments varies. For example, municipal bonds are typically exempt from federal taxes. On the other end of the spectrum, real estate investment trust and bond interest are taxed as ordinary income. Sometimes, municipal bonds can improve after-tax returns relative to traditional bonds. Investors may also want to consider the role of qualified dividends as they weigh their investment options. Qualified dividends are subject to the same tax rates as long-term capital gains, which are lower than rates for ordinary income.
6. Fund or ETF selection: Mutual funds and exchange-traded funds (ETFs) vary in terms of tax efficiency. In general, passive funds tend to create fewer taxes than active funds. While most mutual funds are actively managed, most ETFs are passive, and index mutual funds are passively managed. There can be significant variation in terms of tax efficiency within these categories. So, consider the tax profile of a fund before investing.

WITHHOLDING FIT AND YOUR RMD

Withholding more federal income tax on IRA RMDs is a popular tax strategy. Tax withheld at any point in the year is treated as if evenly paid throughout the year. Some retirees rely on this rule to avoid paying estimated taxes and instead have taxes that they expect to owe for the year withheld from an RMD from a traditional IRA. White & Company regularly advises retirees who are falling short on their withholding to have more tax withheld from a year-end distribution from their traditional IRAs. Note that by default, the IRA custodian will withhold 10% of the payout for taxes. So, if you want more tax withheld from an IRA payout, you will need to request it.

THE 12b-1 FEE IN A MUTUAL FUND

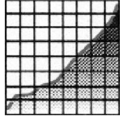
The costs of investing through financial advisers or brokerages continue to plummet. But there is one sneaky fee that just will not disappear and it could cost you tens of thousands of dollars in returns over your lifetime. When you invest in a mutual fund, you could be sold a share class that tacks on an extra fee in addition to the annual expense ratio. It is known as a "12b-1 fee". It can range from 0.25% to 1%, which means it could cost you as much as an extra $1,000 annually on a $100,000 investment.

Fund companies say that 12b-1 fees are charged to cover their marketing costs. But the majority of the fee goes right back to the person who sold you the fund shares as a recurring commission. That provides a powerful incentive for your adviser or broker to push you into these high-fee shares even if cheaper shares of the same fund, without the 12b-1 fee, are available.

The practice is not illegal for brokers, but investment advisers such as White & Company Financial Planning, registered with the Securities and Exchange Commission are held to a higher "fiduciary" standard. They are required to put clients' interests above their own. That includes disclosing whether they will receive any revenue-sharing payments when selling you mutual fund shares and suggesting cheaper alternatives.

MEDICARE PREMIUMS CAN BE DEDUCTED

Self-employed? Amend your tax returns to take Medicare deductions if you are entitled to them but have not been claiming them. People who are self-employed and make a profit through their work are allowed to deduct Medicare premiums on Schedule 1 of Form 1040, an above-the-line deduction that reduces adjusted gross income (AGI). But many self-employed people do not know this deduction exists and have not been claiming it. The IRS allows amended returns for up to three years from the filing date if you are entitled to this deduction but have not claimed it. Ask White & Company for details.



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June 2024

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A REMINDER

Check your credit reports, by reviewing them, you can spot errors as well as signs of fraudulent activity in your credit accounts. The ramifications of negative information on your credit report are broader than you may think. Besides paying higher interest for a mortgage or car loan, you may have difficulty renting an apartment. Poor credit can even be an obstacle to getting a job.

In 2020, as a pandemic-related relief measure, the major credit bureaus -Equifax, Experian and TransUnion began offering free credit reports weekly (instead of just once a year). They recently announced that the change is permanent, so you can continue checking your reports weekly at www.annualcreditreport.com. Avoid other sites that promise "free" credit reports but are actually charging you (often after a free trial), harvesting your personal information or possibly both. If you find inaccurate information on your reports, such as unknown accounts in your name or legitimate accounts that are reported as delinquent despite timely payments, you should file a dispute with each bureau that is reporting it. If you cannot correct your report with the credit bureau, you can go to the Consumer Finance Protection Bureau (CFPB) site to find out how to proceed.

DIVORCE, IRAS AND QDROS

IRA funds can be transferred after divorce from one spouse to the other without incurring penalties. After the divorce is final, a transfer is allowed and is not considered a taxable distribution. Transfers also can be made after a legal separation agreement is approved by a judge. Retirement accounts run by an employer, such as pensions and 401(k) plans can be transferred only using a court order called a Qualified Domestic Relations Order (QDRO). A QDRO can be part of a divorce decree or, if not, should be drawn up at the same time as the divorce settlement or immediately afterward.