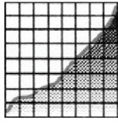
THE ADVISER


WHITE & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS

L, No. 4
September 16, 2024

INSIDE.....

Tidbits……………………………………………...2
Form 1099K Update…………..……………….…..2
Some Financial Changes that Happen When Your Spouse Passes………………………..……………..2
What is a Fair Share………..………………..…....3
Tax Planning and the RMD…...………………………3
Help for First Time Home Buyers to go Deeper in Debt……..……………………………………..…3
Should You Co-Sign on Your Child's Mortgage……..3
401(k) Owners, are you Guilty of this?........................3

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
Sept. 16, 2024 Oct. 15, 2024 Nov. 15, 2024 Dec. 16, 2024	-Due dates of employer's Social Security and withholding tax deposits by EFTPS if the IRS has determined you pay monthly
Sept. 16, 2024	-Due date of Form 1120S (S Corporation) tax returns and Form 1065 (Partnership) tax returns if an extension was filed on March 15, 2024 -Due date of Form 1041 (Trust or Estate) tax returns if an extension was filed on April 15, 2024 **-Due date of 2024 Estimated Tax Payment No. 3**
Sept. 25, 2024 Oct. 25, 2024 Nov. 25, 2024 Dec. 26, 2024	-Due dates of monthly state excise tax reports
Oct. 15, 2024	-Due date of Form 1120 (Corporation) tax returns if a extension was filed on April 15, 2024 -Due date of Form 1140 (Individual) tax returns if an extension was filed on Aril 15, 2024
Oct. 31, 2024	-Due date of Form 940 deposit for 3rd 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 3rd quarter 2024 state excise tax report **-Time to start pre-year end tax planning!**

RELIEF FOR OWNERS OF INHERITED IRAs

Owners of inherited IRAs who were concerned that they would have to take a taxable distribution this year have been given another hall pass from the IRS.

Under the 2019 Secure Act, most adult children, grandchildren and other non-spouse heirs who inherit a traditional IRA from an account owner who died on or after January 1, 2020, are required to deplete the account in 10 years. In 2022, the IRS issued guidance stating that if the original IRA owner died on or after the date he or she had to begin taking required minimum distributions, non-spouse heirs must take RMDs based on their life expectance in years one through nine and deplete the balance in year 10. In response to the confusion about the guidance, the IRS waived the requirement for tax years 2021, 2022 and 2023. In April, the IRS said it would extend the waiver through 2024. However, heirs may want to take a voluntary withdrawal from their IRAs this year, because non-spouse heirs are still required to deplete the account in 10 years, postponing distributions could result in a large taxable withdrawal at the end of that period.

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TIDBITS

- Over 36% of adults getting a divorce in 2023 were age 50 or older.
- More than four million baby boomers will turn age 65 in 2024, the largest number of people in U.S. history to reach this milestone in a single year.
- The percentage of previously retired baby bombers returning to the workforce in 2023 reached a five-year high of 13.2%, an increase of 24% over 2022.
- According to insurance industry data tracker Limra, only 3% to 4% of U.S. citizens age 50 or older have purchased a long-term care policy.
- A 2019 study by the U.S. Department of Health and Human Services found that 70% of adults who survive to age 65 will have a need for long-term care.
- According to Northwestern Mutual's 2024 Planning and Progress Study, U.S. adults believe they will need $1.46 million to retire comfortably. This is a 15% increase from the $1.27 million reported in 2023 and a 53% leap from the $951,000 reported in 2020.
- According to Think Advisor, senior Americans loose $36 billion per year by being scammed. Only 1 in 42 cases of senior exploitation gets reported.
- Most scammers do not pay income tax on their proceeds!

FORM 1099K UPDATE

According to the IRS, the misreporting of income for taxpayers who do not receive Form 1099s or W-2s is 55%. Historically Congress has not increased information-required reporting of income. However, the American Rescue Plan passed in 2021 expanded the use of Form 1099K, which is targeted to increase income reporting.

Originally the expansion would require third-party payment settlement networks such as PayPal, Venmo, Amazon and Square to issue Form 1099K to payees who were paid over $600 a year for goods and services. Before this change the payment amount requiring Form 1099K was $20,000 per year.

In December of 2022, the IRS announced that the new level for issuance of Form 1099K would not apply for transactions occurring until after calendar year 2022.

In November 2023, the IRS announced that 2023 would be another year of transition for implementing the $600 amount for issuance of Form 1099K, therefore, the old rule for issuance of Form 1099K for payments of $20,000 would apply for 2023. In this same notice the IRS indicated that for 2024, the threshold amount requiring issuance of Form 1099K would be $5,000.

All taxpayers who receive a Form 1099K for 2023 need to be sure that the income is reported or disclosed on their Form 1040.

SOME FINANCIAL CHANGES THAT HAPPEN WHEN YOUR SPOUSE PASSES

A. **Your role and responsibilities will probably change.** Every household has some division of labor. It is very common for one spouse to handle the finances. If both are involved in their finances it will help the surviving spouse during their grief. If you take over the family chief financial duties delegate what you can to individuals and professionals you trust who have plenty of practice in these situations.

B. **Cash flow will most likely decrease when a spouse passes,** the lower of the two Social Security benefit amounts will be gone and the higher will remain. If there was pension income, its continuation will depend on the options chosen on the retirement date. The other assets that generated cash flow will remain with management by the surviving spouse.

C. **Your insurance and risk management will need to be reviewed.** When life insurance, long-term care, homeowners and auto insurance was taken out both spouses were likely on the policies. When one spouse passes all policies should be reviewed for needed changes.

D. **Your estate planning documents and the plan itself will need to be reviewed and updated as will your investment plan.** Estate planning documents should be changed to remove the deceased spouse's name, beneficiaries on all investment accounts will likely need changed. Normally, retirement accounts or joint accounts can be rolled into the surviving spouse's account. On the investment front, risk tolerance should be addressed as the prior risk tolerance was most likely a blend of both spouse's risk tolerance. Does this match your risk tolerance now?

E. **Your income tax situation will change.** End of life can bring about a tax roller coaster that very few are expecting. If you have been paying for long-term care or final medical expenses these are Schedule A itemized deductions that can drive down your taxable income. With a possible lower tax bracket it may be time to convert pre-tax funds to take advantage of the lower tax bracket. The first year you file as single on your tax return is when the unpleasant tax surprises start. The way tax brackets are set up under the current code, the joint brackets

are twice as wide as single brackets, not to mention that your standard deduction will also be cut in half.

WHAT IS A FAIR SHARE?

The income tax burden on high-incomers rose for 2021, per IRS statistics. The top 1% of individual filers paid 45.78% of all U.S. federal income taxes, up from 2020's figure of 42.31%. They reported 26.3% of total adjusted gross income (AGI) filers needed AGIs of at least $682,577 to earn their way into the top 1% category, compared with $548,336 in 2020, a $134,241 jump. It is the largest one-year increase in AGI by far for this lucky group in the 20 years of statistics on the IRS's website.

The highest 5% paid 65.64% of total income tax and accounted for 41.99% of adjusted gross income. Eash filer in this group had an AGI of $252,840 or more.

The top 10%, those with AGI of at least $169,800, bore 75.81% of the burden, while bringing in 52.61% of all individuals' total adjusted gross income for the year.

The bottom 50% of filers paid 2.34% of the total federal income tax take. Their share is low because of refundable credits, especially in 2021 due to COVID-19. Filers in this bottom half of all individual taxpayers have AGI below $46,637.

TAX PLANNING AND THE RMD

If you are older, most likely over age 65, you are headed for retirement. The Secure Act 2.0 raised the age at which the required minimum distribution (RMD) from your retirement account has to begin to age 73 and to age 75 in 2033. The previous RMD required age was 70.5.

The eight years between age 65 and 73 are years when it may be beneficial to take withdrawals or do ROTH conversions that would minimize the embedded future tax liability, that you or your beneficiaries will pay. This same strategy could apply if you retire before age 65.

Withdrawals or ROTH conversions before you reach your RMD age will usually cost you tax. Remember deferring distributions until retirement only defers tax, it does not eliminate it. Spreading out the income over a longer time frame in retirement may allow lower overall tax depending on the tax bracket you are in each year.

Taking distributions or doing a ROTH conversion requires careful planning because this maneuver could cause you to pay more tax on your Social Security benefits or depending on your income, hit you with higher Medicare premiums due to income related monthly adjustment amounts (IRMAA).

HELP FOR FIRST TIME HOME BUYERS TO GO DEEPER IN DEBT

Bigger government-backed mortgages help first-time homebuyers. For 2024, Fannie Mae and Freddie Mac are backing mortgages as large as $766,500 in most of the country and $1,145,825 in high-cost cities. That is an increase of 5.5% over last year's thresholds. Loans sold to Fannie and Freddie are typically easier to obtain, with lower credit score requirements, and offer buyers lower down payment compared with other mortgages.

SHOULD YOU CO-SIGN ON YOUR CHILD'S MORTGAGE?

Co-signing on a mortgage may seem like a way to help a family member buy a home in this difficult market. But many parents who co-sign on their adult child's mortgage regret that decision.

The risks:

- If the borrower is late with payments, the co-signer's credit score will suffer.
- If the borrower stops making payments, the lender likely will demand that the co-signer make those payments.

The co-signer could end up having to cover the entire mortgage, even though he/she has no control over the property nor any equity stake in it. This risk can last for the entire length of the loan which could be 30 years! Before you agree to co-sign, consider whether you could live with the relationship consequences if your loved one failed to pay his/her mortgage. This damage can be as painful as your financial damage.

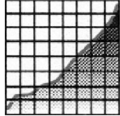
401(K) OWNERS, ARE YOU GUILTY OF THIS?

401(k) investors stop searching for funds too quickly.

When investors find an acceptable option in lists of mutual funds, ETFs or other investments that typically are alphabetized, they tend to stop there rather than examining other options. This could mean that they are missing out on less expensive or more appropriate investments further down the list. Recent finding: Each of the top four funds in an alphabetical list get 10% more investment money, on average, than they would receive if money was evenly allocated to all funds.

""The pessimist sees difficulty in every opportunity. The optimist sees opportunity in every difficulty."

-Winston Churchill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September 16, 2024

*****Our newsletters are available on our website at www.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 free newsletter!***

TAX EFFICIENCY AND INVESTING

When you invest it makes sense to take advantage of opportunities to manage, defer and reduce taxes. In the last edition of The Adviser we discussed six concepts that needed to be considered in your portfolio management. **In this edition, we will discuss deferring and reducing taxes when investing.**

Among the biggest tax benefits available to most investors is the ability to defer taxes offered by retirement savings accounts, such as 401(k)s, 403(b)s, and IRAs. If you are looking for additional tax deferred savings, you may want to consider health savings accounts or tax-deferred annuities, which have no IRS contribution limits and are not subject to required minimum distributions (RMDs). Deferring taxes may help grow your wealth faster by keeping more of it invested and potentially growing. If you have earned income, wages or self-employment income you are eligible for some type of retirement account.

When you invest, review the tax impact of your investments, consider holding and locating investments that generate taxable distributions within an account with a tax deferred feature. Then, invest non-distributing growth investments in taxable accounts.

Here are a couple more items that can reduce your taxes in addition to the six already detailed in the last edition of The Adviser (available at whitecocpa.com). The easiest one is to fully fund your retirement account for the amount that you are eligible for. In the 12% tax bracket an IRA contribution of $7,000 will save $840 of income tax or $1,540 in the 22% bracket. If you expect the same or higher rates in retirement, consider contributing to a Roth IRA which is not deductible currently and not taxable when funds are distributed. Under current tax laws stock dividends are taxed the same as long-term capital gains (gains from an asset held over twelve months) so they receive preferential tax rates. Taxpayers should contribute to a retirement account when eligible.

For the charitable minded investor another way to reduce taxes is by giving charity appreciated stock versus cash. By donating long-term appreciated stock or mutual funds to a public charity, you are entitled to a fair market value charitable deduction without triggering a taxable gain on the appreciation of the holding.

If you have questions concerning taxes and investing give White & Company, PC a call at (509)837-6700.