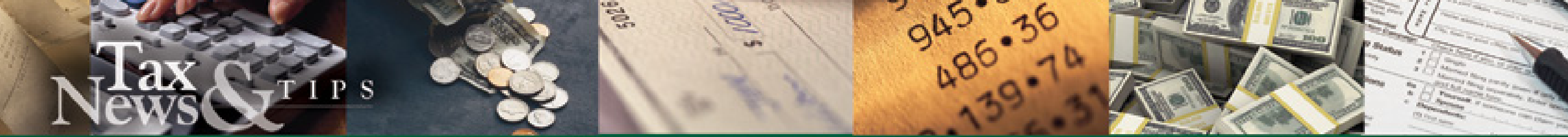

A Publication of Tax News & Tips™ Mid Year 2024

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Grid-Lock in Congress

Every year, Congress passes a Bipartisan Budget Act or a Consolidated Appropriations Act. These acts allocate government spending and often contain new tax rules for individuals and businesses.

When Congress can't agree on how to allocate government spending, a government shutdown can occur. If funding is not allocated, the government can't pay its employees!

Two government shutdowns have already been avoided in 2024. Congress was able to pass a Bipartisan Budget Act, but it did not contain any of the tax provisions we were excited about (for example, the increased refundable child tax credit, increased bonus depreciation for businesses, etc.). While the House of Representatives approved these provisions, the Senate had various concerns about how these tax benefits would be paid for.

Congressional leaders are attempting to resolve these concerns and pass a new bill that includes an increased refundable child tax credit and bonus depreciation. Unfortunately, there is no way to know when this will happen.

If a new bill is passed, the IRS has said they can automatically adjust refunds to account for an increased refundable child tax credit. It wouldn't be feasible for the IRS to adjust returns to account for increased bonus depreciation, so if you are a business owner and we have already filed your returns, there may be some amendments to be filed. If we haven't completed your filing yet, we may decide to wait a little longer to file your tax return to see if Congress will increase the bonus depreciation rate.

INSIDE THIS ISSUE OF *TAX NEWS & TIPS*

Gambling: Beware the Tax Consequences

As a tax professional, I see the financial decisions of clients from all walks of life, and the tax impacts of those decisions. One of the areas where clients get themselves into tax trouble is gambling. Maybe you're opposed to gambling (but sometimes enjoy a game of Bingo), or perhaps you play once in a blue moon, or you might even be a regular at the local casino. No matter how much time you spend at the tables, there can be serious implications and issues at tax time. To keep it simple, we are going to avoid discussing lotteries, professional poker players, and other professional gamblers.

How are gambling winnings and losses taxed?

Generally, money that you win gambling will be taxable at your ordinary tax rate. But even if you lose money from your gambling activities, you may still have to pay tax on your winnings!

Let's say that you inherit $250,000 and decide to hit the casino and put it all on red. Of course, the roulette ball lands on black, which means that you now have gambling losses of $250,000. Gambling losses are only deductible to the extent of your gambling winnings. So, none of the losses are deductible unless you had other winnings that same year.

But that's not all! Imagine you head to Las Vegas to celebrate a bachelor or bachelorette party. You never gamble but decide to put $20 into a penny machine and hit the jackpot for $7,500. Now you're feeling lucky, so the following day, you hit the slots again… and promptly lose the entire $7,500 jackpot and more. If gambling losses are deductible to the extent of gambling winnings, it sounds like it would be a wash, and you would not have to pay any tax on that $7,500 jackpot***… Not Necessarily!***

Gambling losses are treated as itemized deductions. If a person's standard deduction is larger than their itemized deductions, they will not itemize. If they don't itemize, they don't get to deduct the gambling losses. This means that if you claim the standard deduction, you will have to pay tax on your $7,500 jackpot even though you lost all of your winnings (and then some) the following day! ***See "What Documents Should I Keep?" below for some tax savings available by tracking your daily wins and losses.***

Call me if you have questions about how much tax you might pay on gambling winnings and whether your losses are deductible.

How does the government know how much I won?

Depending on the game being played, the casino is required to collect your information and report your winnings on Form W-2G. If you win $1,200 or more on a single play at a slot machine or a single game of bingo, you will be required to provide your information (including your Social Security number) to the casino. If you win $1,500 or more in a game of keno, the casino will collect your information. The casino is also required to report $5,000 or more of poker tournament winnings (after accounting for the entrance fee) and, generally, any other win that is at least 300 times the wager (for example, progressive side bets at blackjack tables, horse races, etc.).

If you refuse to provide your Social Security number, the casino will withhold 24% of your winnings as backup withholding. This money will be extremely difficult to get back from the IRS, so you'll want to go ahead and just supply them with your Social Security number.

Generally, any winnings from table games (blackjack, non-tournament poker, etc) will not be reported on Form W-2G. However, if you cash out more than $10,000 in chips, the casino will be required to file a special anti-money laundering report (Form 8300) and will need your personal information to complete that filing.

All gambling winnings are taxable and should be reported on your tax return, regardless of whether you receive a W-2G. ***However, as a practical matter, many people do not keep a record of daily net gambling wins and losses during the year unless they have a larger win reported by the casino, see below.***

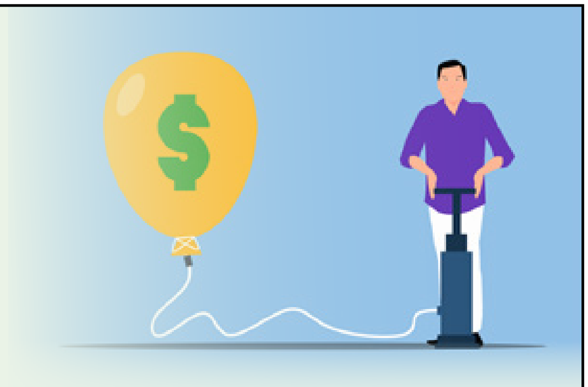
What documents should I keep?

It's important to keep track of your gambling winnings and losses during the year. If you have a player's card with the casino, you are often able to access your annual win/loss statement from the activity on your card, though not all casinos will provide these statements. No one likes to think about how much money they lost at the casino, but if you can bear it, keep track of how much money you went in with and left with on any given day. This is especially critical on days you have reportable jackpots or other winnings and will give me a clear picture of how your gambling winnings and losses should be reported.

Gambling institutions must send out W-2Gs by January 31 of the year after you won that money. Please keep all these forms and give them to me at tax time.

> **"Sure, you may win on some trips—five, six, or seven trips in a row—but eventually, you will get wiped out. Remember, a losing streak is far more deadly than a winning streak is benevolent. And that's all you have to know about gambling in Vegas."**
>
> *–Mario Puzo, author of The Godfather*

Inflation Affects Everything, Even Taxes



Inflation has been a very controversial topic in the news since COVID-19. Regardless of your views of how inflation has impacted the economy, rising prices are evident everywhere. When inflation rises, it affects certain rules in the tax code that may allow for larger deductions for you or your family.

Retirement Plans

Generally, retirement plan contribution limits increase each year to account for rising inflation. Here are a few adjusted retirement plan contribution limits for 2024:

- ✔ **401(k), 403(b), and 457(b) plan contribution** limits are increased to $23,000 ($30,500 for those who are age 50+)
- ✔ **IRA contribution limits** are increased to $7,000 ($8,000 for those who are age 50+)
- ✔ **SIMPLE IRA** contribution limits are increased to $16,000 ($19,500 for those who are age 50+)

Deductible IRA Contributions

Traditional IRA contributions can be a great way to save taxes while you save for retirement. You can make contributions to traditional IRAs no matter how much money you make, but the amount of contributions that are deductible will depend on your income and whether you (or your spouse, if you're married) have an employer who offers a retirement plan.

If you or your spouse are eligible to contribute to an employer-sponsored plan, and your income is higher than the limits below, the deduction for contributions to traditional IRA accounts may be limited.

- ✔ **Single or head of household:** $77,000
- ✔ **Married filing joint** (for the spouse covered by the workplace plan): $123,000
- ✔ **Married filing joint** (for the spouse not covered by the workplace plan): $230,000

If you use the married filing separate filing status, any deduction will be limited. At $10,000 of income, no deduction is allowed.

Why would you want to make contributions if you can't take a deduction? There are some tax planning strategies around making these nondeductible contributions. If you find yourself in this situation, give me a call.

Roth IRA Income Limitations

Roth IRAs can be an excellent long-term tax savings vehicle. Although contributions to a Roth IRA are not tax deductible, distributions from the plan are not taxable once you reach age 59 ½ and the Roth IRA has been open for at least five years.
If your income is above the following amounts, your Roth IRA contribution may be limited or disallowed:

- ✔ **Single or head of household:** $146,000
- ✔ **Married filing joint:** $230,000
- ✔ **Married filing separate:** any contribution will be limited.

Please call me if you have questions about your eligibility to contribute to a Roth IRA.

Miscellaneous Tax Rules Affected by Inflation

Standard deductions are allowed for most US resident taxpayers. The standard deduction is a set amount that directly reduces the income you have to pay tax on.

For 2024, the standard deduction is increased to:

- ✔ **Single or married filing separate:** $14,600
- ✔ **Head of household:** $21,900
- ✔ **Married filing joint:** $29,200

Tax brackets are expanded every year to account for inflation. When a tax bracket is expanded, it means more income will be taxed at lower rates. To save space for important information, I am not going to include all the different tax brackets for every filing status in this newsletter. You can google "2024 Federal Tax Brackets" and easily find them.

Health savings accounts allow for tax-deductible contributions for those of you who have high-deductible health insurance plans. For 2024, the deductible contribution is $4,150 for self-only coverage or $8,300 for family coverage. An additional $1,000 may be contributed if you are age 55+.

Qualified charitable distributions may be a great way to save money on taxes if you are over 70 ½ and taking distributions from a traditional IRA. For 2024, the maximum amount allowed as a qualified charitable distribution is increased to $105,000. If you are interested in learning more about qualified charitable distributions, call me.

Gifts. If you're feeling generous in 2024, you can give up to $18,000 as a gift to another individual without having to file a gift tax return. Utilizing this gift exclusion can be a great estate-planning tool. Contact me if you have tax questions about gifting.

Death tax. In the United States, we have something called an estate tax. This tax only applies to individuals with a high net worth. If you or a loved one passes away in 2024, the individual's total net worth can generally be up to $13,610,000 before being subject to estate tax. Some states also have a death or inheritance tax, not addressed in this newsletter.

Your Tax Calendar

June 17 Q2 2024 Estimates Due
Sept 16 Q3 2024 Estimates Due
Oct 15 Extended Tax Returns Due
Jan 15 Q4 2024 Estimates

Taxpayers in federal disaster areas may have extended due dates for filing or quarterly estimates. Call me anytime if you have questions.

Keep An Eye On The Mail

Once we have filed your tax return, the IRS will compare the tax return we submitted with the income information that was reported to them to see if anything is missing. Please watch your mailbox to see if you get any letters from the IRS. If the IRS believes something is missing, sometimes they will withhold your refund or try to assess additional taxes. It is extremely important that if you receive a notice in the mail, you send me every single page of the notice immediately. If you only send me the first page of an IRS notice, I won't always be able to tell exactly what the problem is.

DO NOT PANIC! The IRS is far from perfect. The notice they sent you might be incorrect because they don't have all the facts about your tax situation. If the IRS got it wrong, I will contact them and work to get it fixed.

What if the notice is correct? If you forgot to give me a tax document or tell me about an investment account or retirement plan distribution, you may read that notice and say, "Oh no, I forgot about that!". I still want you to send me the notice so I can ensure they are assessing the right amount of tax. If there are any penalties on the notice, I might be able to have them removed. Please do not automatically pay the notice without talking to me first.

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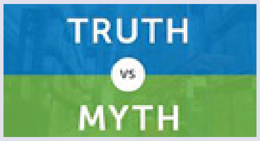

Myth: Owning rental real estate is a great way to lower your tax bill.

Truth: One of a tax preparer's favorite phrases is "it depends" and rental real estate is one of those "it depends" situations. It may be true that rental real estate could reduce your tax bill, but it depends on your tax situation. People generally say that rental real estate can lower your tax bill because many rentals generate tax losses. The problem is that a rental is usually considered a passive activity. Losses from passive activities can only be deducted against other passive activity income (special rules apply if your income is under $150,000). There are loopholes for short-term rental properties (i.e., Airbnb or VRBO), which may allow the rental losses to offset all income, but careful tax planning must be done to ensure you meet all the rules. If you are considering purchasing a rental property for tax purposes, call me first to ensure it is the right move for you.

Myth: If you form an LLC and pay for things with a business credit card, you can reduce your taxes.

Truth: There are so many things wrong with this myth. The first is that, for tax purposes, you do not need to have an LLC to start a business. If you decide to start a coaching business, for example, you just need to find someone to pay you for coaching, and you may have a business for tax purposes. You will include the income and expenses from the business on your tax return. If you spent more money on the business than you made, you may be able to deduct the loss on your tax return (which will reduce your taxes).

The myth's second problem is that it assumes anything can be a business for tax purposes. To be considered a business for tax purposes, two things must be true:

- ✔ ***Your primary motive for being in business is to turn a profit, and***
- ✔ ***You participate in that business regularly and continuously.***

If you don't meet both requirements what you have is a hobby, and none of the "business" expenses will be deductible under current tax law. The exception to this rule is for the cost of any goods that you sell.

For example, let's say you really like a particular brand of skincare product, so you become a brand ambassador so you can get discounted products. If your primary motive for selling skincare products is to get discounts for your own products, that is not a business for tax purposes. Any income you earn from selling products will be taxable, and you can only deduct the cost of the products you sold.