Strauss Tax Service
Financial and Tax Consultant

30 East Huron St., Suite 1101
Chicago, IL 60611
(312) 988-9996
(630) 964-4018
Fax: (312) 988-9997
www.strausstax.com
Email: judi @strausstax.com

THE STRAUSS REPORT

Summer 2024

Summer is finally here…. and we are ready…

From our view and that of the IRS as well, the 2024 tax filing season went quite smoothly, in comparison to years before 2023. This was due to the $80 billion cash infusion provided by the Inflation Reduction Act. IRS Commissioner Danny Werfel and the all-new Chief Taxpayer Experience Officer Fumi Tamaki are now responsible for improving the taxpayer's agency experience and identifying opportunities to make continuous improvements for taxpayers and the tax professional community. They are both committed to "world class customer service for taxpayers, and "world-class data management systems for IRS employees." As of May 3, 2024, 142,814,000 tax returns were received - with over 94% electronically filed. There were less refunds in total, but the refund amount remained about the same at $2864. The good news is our ability to get through to the IRS – on the phone (88%) with a 3-minute call wait time. In addition, online tools from Where's my Refund and E Services for us have been vastly improved including the ability to upload replies to notices (called the Document Upload Tool) and get tax documents and transcripts. As of April 12, 2024, over 900,000 notice responses have been received online - with a longer-term goal of up to 125 million paper documents to be submitted digitally, vastly reducing processing time for replies/refunds from the IRS.

In this summer tax newsletter we will review tax law changes to review and consider now - as you plan for 2024 taxes, including: your RMD - required minimum distributions and contributions from your IRA, your possible investment in energy saving home improvements, your investments for both income and tax planning with the higher interest rates and the stock market (high now but could change during the election season), and medical deductions as many of us (or our parents) are requiring more long term care. We will also discuss things we have been doing for clients - for taxes now, working with the IRS and others for you and assisting you or your beneficiaries after a death in the family.

SO WHAT HAPPENED – during this filing season?

1. **Some of us had more income in 2023 than in prior years and we also owed taxes. Why?**
   - **First,** Required Minimum Distributions are back. The stock market was lower at the end of 2022 than in the prior year so our RMD in 2023 was a little less than in prior years despite the increase in our age! Many of us contributed to charity from our IRA withdrawals (QCD or Qualified Charitable Distributions) but our income was still higher than last year.
   - **Second,** many of us have our investments in stock mutual funds - and the fund managers decided to sell both during the year and at the end of 2023. This created more capital gains than in prior years (while it reduced the uncertainty of the stock market).
   - **Third,** interest rates are now the highest many of us have seen in quite a while. CDs and money market accounts as well as I Bonds have rates ranging from 4.55% - over 5% and are "safe" investments as compared to the ups and downs of the stock market. Many of us have been pulling out of investments and keeping the funds in cash accounts- this is good for income but then also created more taxable ordinary income on your tax return for 2023. While most of us like to have a" cash stash;" having huge chunks in checking accounts makes no sense and it was not uncommon to see **huge** jumps in ordinary income from interest and ordinary dividends this tax season. (FYI- Treasury bills/notes and savings bonds - all US government interest – are not taxable in IL!)
2. T**he big Child credits (due to COVID) from 2020 and 2021 are long gone** so unless you adjusted withholding, many parents got a much lesser refund in 2024 than in the prior years.

3. **SSA had the biggest increase for 2023** than we may ever see (due to rising inflation) – 8.7%! That was the good news. For so many of us (with the calculation not adjusted for inflation since 1992!), 85% of our Social Security is taxable and can show up as another unwelcome surprise at tax time. In addition, the tax tables, and the standard deduction for 2023 and now 2024 have both been adjusted for the higher inflation. For 2024, the SSA increase was only 3.2%. Also, an increase we do not notice but keeps creeping upward is the limit of wages on which we pay SSA tax- it is up to $168,000 for 2024 up from $160,200 last year and only $142,800 in 2021. (FYI- it was only $106,800 back in 2011!)
4. **Many clients are now in the "modern" age** - paying their Estimated taxes online for both the IRS and IL. We provided detailed instruction sheets and you do not need an online account for this. You get an email confirmation - as well as see it debited from your bank account. Please keep the ES worksheet with proof of payments for your 2024 taxes and print out your confirmation. – and then get them to us next year at tax time. We have had some issues this year with incorrect amounts of ES paid and notices/refunds - we provide the worksheet to be accurate in what we include on your tax return and avoid problems too.

Your higher total income (including Social Security and Municipal Bond Interest) will impact the amount you are paying for Medicare and your Medicare Drug Plan in 2025. The IRS and Medicare/Social Security exchange income information and letters informing you about higher costs (which get subtracted from your SSA benefits deposited into your bank account) are mailed in the Fall. The increases start at a total income of $103.000 for Singles and $206,000 for Married/Joint. We have the chart for 2024; if you would like a copy, call, or email us so you will not be surprised later this year. The good news is this is a year-by-year computation, so if your income goes down you may not pay the higher Medicare premium next year.

The IRS is both requiring Identity Protection Pins for taxpayers whose identity has been compromised and offering them to taxpayers who want to protect themselves. They must be included in the tax return we file – and must be renewed /changed, usually done online each year. We cannot say whether it is a good idea for you and/or your spouse. It does offer protection but adds yet another layer of complexity to the tax filing process each year. IL had a recent data breach but has no plans for IP Pins as of this time. We are also having difficulty getting refunds for deceased taxpayers and are having many more clients getting identity verification letters from the IRS – and while this is good for your/our security, it is just another step in the never-ending tax work we do.

In addition, we have substantially more extensions than in prior years. Some of us are older and did not "find" all the tax documents needed; others did not want to look at taxes this year and got information to us late so there were just not enough hours to do all the work before April 15. Others usually get extensions – which are until October 15th. The issue is that the extensions which we filed are NOT an extension to pay so there could be penalties and interest if you owe tax money. We can include penalties in what you owe but you may still get a notice from either the IRS or IL – or both. Call us or email your notice to us and we will review it and see what we can do for you. If it is small, it is probably easier and less expensive for you to just pay it.

We are also tracking refunds for clients - for current year tax returns, for amended returns from 2022 and 2023 and other years. We get Form 2848 (Power of Attorney) from you and follow up with the IRS on the phone or at the IRS Forum in Chicago this year July 9 -11 – and cheer with you when you get your refund, when we get penalties reduced and/or problems solved.

SO WHAT CAN YOU BE DOING THIS SUMMER?

1. **We have computed required minimum distributions for most clients**. Please remember they must be taken out before December 31, 2024. You can take it out at one time (any time during the year) or monthly or quarterly as you wish. The RMD can come out of each IRA or only one IRA. It does not matter so long as the total required amount is withdrawn. The new SECURE ACT 2.0 ACT signed into law on December 29, 2022, reduced the missed RMD penalty from 50% to 25% starting this year. And, if the

penalty is corrected in a timely manner, the penalty is reduced further to 10% - however I have NEVER had a client get a penalty or even a letter – ever! You can also make charitable contributions (QCD) directly from your IRA to the charity- this saves tax money since most of us are not itemizing now. In addition, the small deduction for contributions without itemizing is gone. You may want to consider **WHEN** to take your RMD this year – many of us wait until year-end, but there could be stock market issues closer to the election.

2. **Make your home more energy efficient**! Energy Credits are back - thanks to the Inflation Reduction Act – big time starting in 2023. The credit is equal to the lesser of the sum of amounts paid for qualifying home improvements or an annual $1200 limit (with no lifetime exclusion). Qualified energy property (meeting **Energystar.gov** standards) include central air conditioners, furnaces, water heaters, exterior doors, exterior windows, including skylights, and insulation – each have a specific credit amount. (Please consider this big tax saver- we had NO Energy credits for clients in this filing season…!)
3. **Some of us are thinking about downsizing** and decluttering - and selling our homes. The good news is that for most of us the profit (difference between sales prices minus expenses of sale and basis - cost plus improvements) is not taxable if under $250,000 if single and $500,000 if married. in addition if your spouse has died, ½ of the house gets a "stepped up" basis from his/her date of death.
4. **The floor for medical expenses is still 7.5%.** Most people do not itemize unless they have substantial medical (which often comes from medically required caregiving or nursing home expenses) or charitable deductions or an exceptionally large mortgage,
5. **Review your withholding**. Your income may be higher or lower in 2024 than in years past. Many of us have had a cut in salary or may not be getting the bonus we expected. We recommend that we review your withholding for 2024 (with the all-new W-4), so you might get more take-home pay which you might need now.
6. **Please review your health insurance now** to see what it covers and what it does not. Also, if you are furloughed or laid off, please check the cost of COBRA. You also might be eligible on your spouse's plan or through the Health Insurance Exchange due to special circumstances. Please be careful of less expensive high deductible plans – they sound good but can be very costly if you require hospitalization or major medical treatment.

6**. Review your 401K/ IRA and Other Investments**

Many of us have several IRAs and investment accounts and have never or hardly ever reviewed how they are performing or what they are invested in. Consider:

- **Making lists** of all accounts, passwords, and contact information.
- **Make an appointment** with your broker or financial advisor to review performance.
- **Considering if this is a good time to change and/or consolidate investments**.
- **Reviewing your investments** and tax strategies with us or another objective professional.

7**. Read your Trust or Will - or have one done now!**

Many of us have not looked at our will or trust in five years - or often 10 or more years. And at least one third of us do not have even a will! Your will or trust defines who will manage your affairs and money if you become incapacitated or pass away. Your will or trust defines who will get your assets and by what percentage. NOW is a good time to review who is your executor or trustee and what you have - before it is too late. We work with attorneys in the area all the time and review trust documents with you for possible tax issues.

8. **Check your beneficiaries** on your IRAs, your company retirement accounts and any annuities. We discover many problems after clients pass away- it is best to review them now and avoid both tax issues and family problems later.

WHEW! IS THERE MORE? OF COURSE!!

- The first Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed on December 20, 2019. A major part of this legislation increased the age required for minimum distributions from 70 ½ to 72. **Now the Secure 2.0 Act delayed this RMD age to 73 - starting in 2023! What this means is that taxpayers who turned 73 in 2023 had to begin taking out their RMD beginning in 2023 and if you turn 73 in 2024 you must withdraw this year. - but those of us who have already**

started must continue. Confusing - Oh yes!!

- **Beneficiaries of inherited IRAs (except the spouse) cannot "stretch" the IRA withdrawals over their lifetimes**. The entire account balance must be distributed within 10 years after the date of death.
- **Repeal of maximum age for traditional IRA contributions.** So long as there is earned wage or consulting) income, an IRA contribution can be made.

STRAUSS TAX SERVICE NEWS! We continue to work with you, prepare your taxes (both for those in the Chicago area and increasingly for those who have moved out of town - (we do so many other states now!), do tax planning, respond to IRS notices and work with your broker, your adult children, and your attorney on the phone, on Zoom or in person. Beth Austin (and her husband Chris) have been invaluable in making sure your documents are safe and secure and provide you (and me!) the best care and customer service. We send tax folders back to you via FEDEX and give you tracking information. Our DG phone number has been ported to a cellphone: 630.964-4018 and while we are not on it 24/7, we do return all calls.

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We continue to have an active Facebook Page - which is updated often. We also post both our newsletter and tax law updates on our website: **www.strausstax.com**. Or please call us if you have a question! We are here, as always - on the phone, via Zoom or in person too, to answer your questions, and work to give you good tax and financial advice on retirement planning, estate, and trust taxes (after a loved one passes on) and the full range of the new and complex tax laws now.

Judy Strauss