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THE STRAUSS REPORT

Fall 2024

OMG: Is it really October – with the November 5th election soon upon us?

This tax season and this year of 2024 went more smoothly than the years before - primarily due to the increase in IRS funding and support – and less major tax changes. However, there still seems to be so many changes in our own lives - from losing or changing jobs, considering retirement, sales of houses to so many medical issues (and our working with the adult children of our clients). We have spent time working to make sure your questions are answered and that we follow up on each call or email. As you will read below, we are beginning to see major changes with the IRS which will help us – and therefore you too. However, it is important to note that many of the changes from the past six years "sunset" in 2025 - that means the election of 2024 and who controls both the White House and Congress can have a huge impact on our tax laws now and for the years to come.

In this issue of **The Strauss Report**, we will work to help you understand the tax changes from the Inflation Reduction Act of 2022 and prior tax laws and suggest some important end of year tax strategies to consider. We will also work to answer questions on the implications of required minimum distributions from IRAs and inherited IRAs for 2024, 2025 and beyond, charitable contributions (QCDs) and how both paying and responding to IRS and IL notices has changed. We will also review the fall medical insurance season ahead, including increases in Social Security for 2025 as well as for Medicare Part B and D and Medicare Advantage plans. And finally, we will some of the important questions we are getting now: sales of our homes AND gifting to adult children and family.

So What Should You Pay Attention to this Fall?

1. The **tax rates** that were put into places from the Tax Cuts and Jobs Act of 2017 are still in place for this year. That includes lower rates for long term capital gains for mutual funds and qualified dividends from stocks.
2. However, **interest rates** for CDs and even bank accounts are still much higher than in prior years, hitting over 5% for many of us before dropping a little after the interest rate cut by the Federal Reserve. This can mean more tax for both the IRS and IL in 2024. We have worked to "guesstimate" interest income for clients with Estimated Taxes, but you might want to review your bank statements and/or your brokerage accounts to see where you stand as compared to 2023.
3. In addition, the **stock market** has done very well in 2024, with the S & P up a robust 25.31% vs 13.97% in 2023 and the high tech NASDQ up 24% to date. Given the potential uncertainty and volatility after the election, many brokers might be considering selling stocks or mutual funds during or at the end of 2024. Look at your monthly statement for year-to-date gains and check with your broker about capital gains distributions at year end. You may want to discuss your portfolio with your broker either before or right after the election. Again, taxes are lower on these realized gains - but they are still taxed both by the IRS and IL.
4. The Inflation Reduction Act put into place new and greatly expanded **Energy Credits**. Now called the Energy Efficient Home Improvement Credit this tax law extended the credit to include property placed in service before January 1, 2033. For 2023-2032 the credit amount is raised to 30% (previously 10%) of the amount paid for qualified energy improvements, with an annual limit of $1200 - and NO lifetime limits. For windows, skylights $600 annual total credit. For doors, the credit is $250 for one, $500 for more than one and $2000 (for installations after December 31, 2022) for heat pumps, water heaters and biomass stoves and boilers. This bill also expanded the credit to homes other than a principal residence - that means a second home will qualify!! These are big credits and although the improvements must meet Energy Star requirements (energystar.gov), the credit might just offset the additional cost for a higher end furnace or other home improvement.

5. There are also big **credits for Clean Vehicles**, both new and used with no phase out based on number of vehicles sold. While many of us are keeping our cars longer and also driving less since COVID, if you might consider a hybrid or electric car as your next purchase, contact us and also talk to the car dealer so we can send you our Auto Credit Information Sheet.
6. **Required IRA Withdrawals for retirees are still with us.** The 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. This is <u>only</u> for individuals who became 70 ½ after 12/31/2019. **Now the Secure 2.0 Act delayed this RMD age to 73 - starting in 2023! So if you have been taking out your RMD (Required Minimum Distribution), you must continue – but those of us who turn 73 in 2024 must begin to take it in 2024. Confusing - Oh yes!!**

   Perhaps you need this withdrawal (which is bigger in 2024 than in the prior year since the stock market did well and yes, we are one year older!) for your living and/or medical expenses. Perhaps you want to take part of it out and donate it to charity as a QCD - Qualified Charitable Distribution (and many of our clients are doing this!), or perhaps you want to give it to a child or grandchild - please do so! As most of us know by now, if you donate directly to charity from your IRA, it is subtracted from your taxable income. This could reduce your taxable Social Security; the Adjusted Gross Income used for the medical deduction floor and save you taxes as well. We have been working with clients to properly complete the QCD forms with their investment advisors - call us if you want our assistance.

   In addition, many of us have several IRAs - you can take your total RMD from one or take an amount from each account. The penalties for" forgetting to withdraw" were huge- 50% of the required withdrawal, but now the Secure 2.0 Act has reduced them: to 25% or even 10% if the error is corrected within two years. While clients have occasionally slipped up, we have never had a penalty assessed….
7. After many years of waiting and suspicion, the IRS has finally issued a final ruling on **IRAs inherited by a NON spouse**. While a spouse can stretch the IRA withdrawals over his/her lifetime, now the non-spouse beneficiaries must take annual distributions starting in 2025. The change applies to "non-eligible designated beneficiaries" who inherit an IRA, 401(k) or other type of retirement account from someone who died after they were required to start distributions. While we waited, many beneficiaries did not take out any distributions; the entire account must be liquidated within ten years of the death of the original account holder so many of us will have big distributions in 2025. You might consider taking a distribution still in 2024 while the tax rates might be lower to reduce the amounts in future years.
8. Since the tax rates may change in future years (possibly higher for higher income taxpayers), you might talk to your broker (and us) about **Roth Conversions**. We work with clients to minimize tax consequences and since the stock market has done incredibly well over the last few years, clients who have done prior conversions and invested well in their Roths now have substantial nontaxable income/gains when they withdraw from their Roth accounts!
9. **If you are still working/earning income, the age cap for contributing to an IRA is gone.**

<u>Social Security, Medicare, and you….</u>

- **Social Security recipients should see a small (quite small!) increase for 2025 – estimated to be about 2.7-3.2% vs the 3.2% in 2024 and the 8.7-8.8% rise** in their benefits for 2023 because of the reduced inflation from the Consumer Price Index. This means an average increase of $57-$62/month. However, Medicare premiums are expected to increase to about $185 from $174.70 in 2024 (a 3.7% increase) and from $164.90 in 2023 further eroding any income bump or our financial concerns over high prices for housing, healthcare, and certain grocery items.
- **Upper income seniors also pay more for Medicare Part B and Part D coverage in 2025,** depending on adjusted gross income (AGI) plus any tax-exempt income - over $206,000 for joint filers or $103,000 for Singles. You get a **letter in November of each yea**r when the IRS and SSA share tax information from your 2023 tax return. If your premiums are going up – then they are deducted from your Social Security deposited in your bank account. This is a year-by-year computation - so if your income increased for just one year, your premiums should go back down the next.

PROGRESS AT THE IRS….

On August 16, 2022, President Biden signed into law H.R. 5376. In general this legislation:

- Continues the Affordable Care Act premium subsidies that lower the cost of health insurance for lower income individuals and families from now until the end of 2025 (they were due to expire at the end of 2022). An important election consideration for many of us….
- **Increases the IRS budget by roughly $80 Billion over ten years**. They money is broken into four main categories – enforcement ($45.6 billion), operations support ($25.3Billion), business system modernization ($4.8 Billion) and taxpayer services ($3.2 Billion). Enforcement includes auditing of high-income taxpayers (over $400,000), conducting criminal investigations and to enforce criminal statutes related to violations of IRS laws and other financial crimes. Operations support includes information technology and upgrading of their hardware and software much of which is pre-2000. IRS Commissioner Danny Werfel stated: "If the IRS continues this trajectory of significant progress, we will meet a generational imperative on several fronts. This work will enable all taxpayers to complete all interactions with the IRS digitally if they choose. The IRS will be better equipped to disrupt tax scams and provide immediate and comprehensive victim support when scams occur. We will complete and sustain new solutions for protecting taxpayer data from unauthorized access. And we will put in place increasingly accurate audit selection methods that hold accountable complex financial maneuvers to shield income and avoid paying taxes."
  - Real progress in Customer Service (for you and for me!) has been made with this additional funding in 2023-4:
    - As of the end of June the IRS has scanned more than 11.8 million pieces of paper.
    - They have enabled an additional 23 forms (from the 51 in 2023) eligible for electronic filing. And they have built the capability for taxpayer to submit online responses to notices/ letters via the Document Upload Tool.
    - The IRS dramatically improved customer service with an 97% response rate on its main taxpayer help line.
    - For the first time The IRS is enabling taxpayers to submit forms on their cellphones or iPad and submit them digitally. There are now 30 forms available for mobile use- since they estimate that 15% of us rely solely on mobile phones for our internet access- they do not have broadband at home.
  - Enforcement has also been ramped up, including:
    - The IRS announced that it has recovered $1.3Billion from high income, high wealth individuals (non-filers back to 2017 and those with $400,000 to more than $1 Million in income) in one year – relieving burden from ordinary citizens..

1. **And finally, one of the most significant provisions allows Medicare to negotiate the price of prescriptions drugs, bringing down the cost we will pay for medications.** As of January 2024, people in Medicare D who have high drug costs have their annual out of pocket costs capped at about $3300 - and at $2000 beginning in 2025. CMS estimates that Medicare enrollees spent over $3.4 Billion for out-of-pocket drugs in 2022. Check with your doctor and your pharmacy to be sure you get the drugs that qualify and see what the cost savings are.

HOUSE SALES, LAND SALES - AND RENTAL SALES TOO

Many taxpayers are selling their principal residences, land held for investment, rental properties and even farms. These may be in IL or in another state. You/we must report these sales and pay tax on the gain (except for main homes which have an exclusion of $500,000 if married and $250,000 if Single) and to IL or the other state where the property was located. Please call or email us if you have sold so we can send you what information we will need to compute your "profit" now and not wait until tax time. The decision to sell your main home (often your home for many years!) is not an easy one and we discuss with clients and their adult children's issues such as aging in place vs. living in assisted living/ retirement homes.

MORE THINGS TO CONSIDER THIS FALL…

1. **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 a very large mortgage,

2. **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 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.
3. **While we never offer political advice, it is important to pay attention to the tax proposals of both candidates in this election. All the major tax changes from 2017 are expiring in 2025 – and it is estimated that it would cost $3.9 trillion to extend them over the next ten years. Regardless of who is our next President, tax laws will change in the upcoming year(s)!**
8. **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.

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<u>JUDI STRAUSS in Print, on Media.</u>

In January 2025, we are doing Zoom workshops at the Lisle (January 21), Woodridge (January 22) and Downers Grove Public Libraries (January 15) - at 6:30 PM. Please sign up at the library or online.

Beth and I regularly check the phone- (the (630) 964-4018 number) and my email (judi@strausstax.com). Make sure you put our contact information in your cell phone. In addition, make sure your family knows who we are in case they need to talk with us or us to them.

Both our website (**<u>www.strausstax.com</u>**) and our Facebook page have up to date tax information and workshop flyers, and you can follow us on Facebook as Strauss Tax Service without being my personal friend!

Judi Strauss