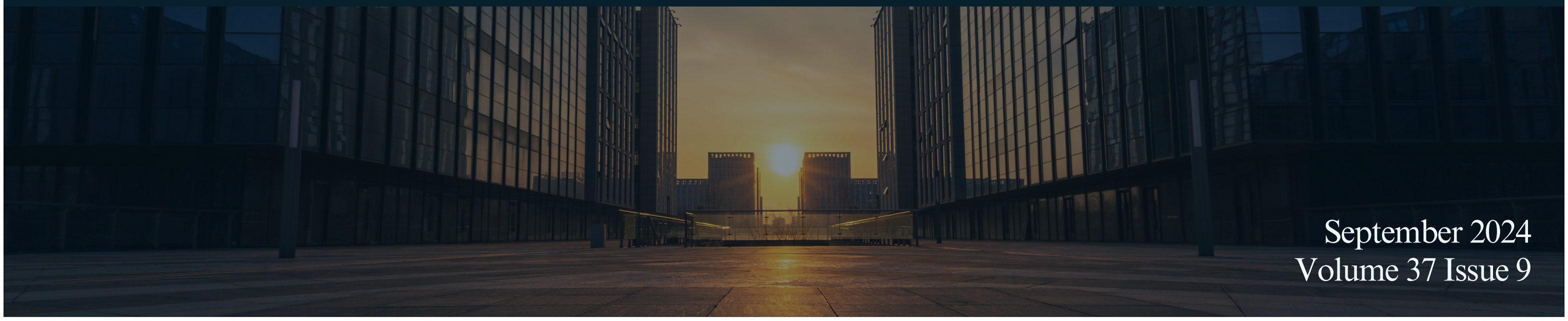
SOUTHERN CAPITAL
SERVICES, INC.
Registered Investment Advisor Since 1982



September 2024
Volume 37 Issue 9

# Test Your Tax Smarts

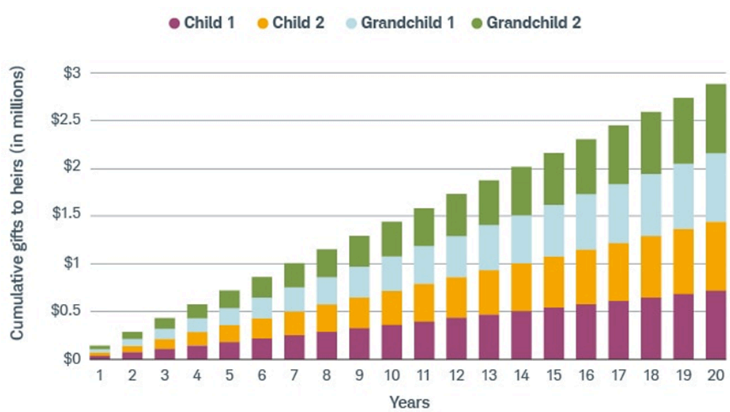
Source: Charles Schwab

**How tax-savvy are you?** Staying abreast of the ever-evolving U.S. tax code may feel like a fool's errand but keeping tabs on major changes can help avoid costly mistakes, minimize your taxes, and maximize your wealth. How familiar are you with the current tax landscape? If you find yourself relating to the following tax questions and answers, please give us a call to schedule a meeting.

**IRS-mandated withdrawals from tax-deferred retirement accounts currently kick in for retirees at age 73—but will rise to 75 in what year?** Year 2033. Those born in 1960 or later can now wait until they reach age 75 to take required minimum distributions (RMDs) from their tax-deferred retirement accounts. "Taking RMDs later allows your money to stay invested longer, potentially providing you with more tax-deferred growth," says Hayden Adams, CPA, CFP®, director of tax and wealth management for the Schwab Center for Financial Research. "However, bigger account balances mean bigger RMDs—which are taxed as ordinary income and could bump you into a higher tax bracket." In other words, just because you can wait to make withdrawals doesn't mean you should. Depending on your situation, drawing down larger account balances as early as age 59½ could reduce your RMDs in the future and provide you with greater control over your taxable income.

**How much money can you give tax-free to each individual in 2024 without eating into your lifetime gift and estate tax exemption?** Individuals can give up to $18,000 (for married couples, it's $36,000) to as many people as they like in 2024 with zero gift- and estate-tax consequences. "Implementing an annual gifting strategy is a way to transfer wealth to the next generation entirely tax-free," Hayden says, "particularly if you're concerned about exceeding the federal estate tax exemption." (It's currently $13.61 million per individual but could fall to roughly half that effective January 1, 2026.)

**Bit by bit (This hypothetical example is only for illustrative purposes.)**




A couple who gives $36,000 annually to each of their four heirs could transfer $2.88 million after 20 years entirely gift and estate tax-free

**Could working in retirement reduce your Social Security benefits?** Yes, but only temporarily:

- If you're younger than your full retirement age (FRA) for the entire year, your benefit will reduce by $1 for every $2 you earn more than the annual limit ($22,320 in 2024).
- In the year you reach your FRA, your benefit will reduce by $1 for every $3 you earn more than the annual limit ($59,520), but only for the months prior to reaching your FRA.
- Once you reach your FRA, you'll start receiving your full benefit no matter how much income you earn. What's more, the Social Security Administration will recalculate your benefit to make up for any previous reductions that resulted from working.


**Which of the following gifts do not count against your annual gift tax exclusion or your gift and estate tax exemption?** Tuition payments made directly to an educational institution. For example, you could cover your granddaughter's annual tuition payment in its entirety—provided you pay the school directly—and give her up to $18,000 in 2024 with zero tax consequences (see question No. 2).

**Is income generated from a foreign investment subject to U.S. taxes?** Yes. The U.S. government taxes all earned and unearned income, regardless of where it originates. But if you pay tax to the country where you generated the income, you may be eligible for either a credit or a deduction on your U.S. taxes. "The IRS limits the foreign tax credit you can claim to the lesser of either the amount of foreign taxes already paid or the U.S. tax liability on the foreign income," Hayden says.

**For 2024, what is the maximum penalty for failing to take the full required minimum distribution (RMD) from your tax-deferred retirement accounts by the end of the calendar year?** 25% of the shortfall. The SECURE 2.0 Act recently lowered the penalty from 50% to 25%; however, that penalty may be further reduced to 10% if you withdraw the full amount within two years. "That said, there's no good reason to pay even a 10% penalty when it can be so easily avoided," Hayden says.

**Is receiving a tax refund better or worse than having to pay additional taxes on Tax Day?** Worse. A tax refund is essentially an interest-free loan to the government, which means you may have lost out on interest or other income that money could have earned. On the other hand, you may face an underpayment penalty if you had too little tax withheld throughout the year. (You can generally avoid this penalty if you owe less than $1,000 after subtracting your withholding and refundable credits, or if you paid withholding and estimated tax of at least 90% of the tax for the current year or 100% of the tax shown on the return for the prior year, whichever is smaller.) "In an ideal world you would break even on Tax Day, meaning you'd neither owe additional taxes nor be due a refund," Hayden says. "That's a high bar but staying on top of your tax withholding and estimated tax payments throughout the year can get you pretty close."

**If you loan a family member money, are you required to charge interest?** Yes. Intrafamily loans must charge minimum interest rates—known as the applicable federal rates. "Typically, an intrafamily loan allows family members to borrow from each other at a lower rate than they could get at a bank," says Austin Jarvis, director of estate, trust, and high-net-worth tax at the Schwab Center for Financial Research. However, if you fail to charge an adequate interest rate, the IRS could tax you on the interest you could've collected but didn't. What's more, if the loan exceeds $10,000 or the borrower uses the money to produce income (by, say, investing in stocks or bonds), you'll need to report the interest income on your taxes.

**In 2024, individuals ages 50 and older can make catch-up contributions of up to $7,500 to their 401(k)s and similar workplace plans. However, starting in 2025, individuals who fall into what age range can make even larger catch-up contributions?** Ages 60 through 63. For qualified plans, such as a 401(k) or 403(b), individuals ages 60 through 63 can make contributions of 150% of the regular catch-up amount or $10,000—whichever is greater. For SIMPLE plans, the amount is 150% of the regular catch-up amount or $5,000—whichever is greater.

**Starting in 2026, do all individuals who make catch-up contributions to a 401(k) need to do so with after-tax dollars to a Roth account?** No, only employees whose wages are higher than $145,000will be required to make catch-up contributions with after-tax dollars to a Roth account. "While you'll no longer defer the taxes on these funds," Hayden says, "neither will you pay tax when you withdraw them in retirement, assuming you're at least age 59½ and have held the account for at least five years."

**PLEASE REMEBER TO NOTIFY US IF YOU HAVE HAD ANY MATERIAL CHANGES IN YOUR FINANCIAL CIRCUMSTANCES.**