Coleman&Associates
Fully Integrated Tax, Accounting & Financial Services

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Watch Out for These Income Tax Myths

MYTH: /miTH/ (noun) – a widely held but false belief or idea

Many myths about the IRS and the tax code have been amplified online in recent years. Here are several myths that if you believe them, could leave you with an expensive tax surprise.

Myth #1: ***Retirement money is always tax free.***
You have retired and withdraw from a 401(k) fully expecting that you won't owe income taxes. Unfortunately, money withdrawn at any age from a 401(k) – or your traditional IRA – incurs federal income taxes at your current tax rate. Note: the state of Illinois does <u>not</u> tax retirement income.

Lesson Learned: *Understand how money in each of your retirement accounts is taxed when withdrawn. Some will have income taxes, some could incur early withdrawal penalties, while some incur no tax at all!*

Myth #2: ***The government won't find out about a big gambling win.***
Gambling winnings are considered taxable income to the feds and most states. The IRS generally wants about a quarter of your winnings from sweepstakes, casinos, bingo, keno, online sports betting, and the like. Casinos and other betting entities also inform the IRS of your winnings over certain thresholds. So it is always best to keep track of your winnings.

Lesson Learned: *Gambling winnings fall under tax rules just like other forms of income. Deducting gambling losses is possible, but it has limits that are subject to strict rules. For example, you must itemize deductions on your tax return if you don't declare yourself a self-employed professional gambler.*

Myth #3: ***Government benefits like unemployment and Social Security aren't taxable.***
Unfortunately, unemployment and Social Security benefits are usually taxable. Unemployment benefits are taxed at your normal tax rate as income at the federal level and in some states. Social Security is taxed, but in a much more confusing way. Supplemental Security Income payments, on the other hand, are not taxable.

Lesson Learned: *Plan ahead to mitigate the tax shock. You can have taxes withheld from your unemployment benefits so you don't have to pay a lump sum when you file your return. With Social Security benefits, understand when and how they can be taxed, since up to 80% of these benefits could be subject to income tax by the federal government.*

Myth #4: ***I work from home and can write off my office expenses.***
You can only deduct home office expenses if you operate a business out of your home. If you're an employee, you're out of luck. If you do run a business exclusively out of your home, there are still hurdles to clear before you qualify to use the home office deduction.

Lesson Learned: *Tax rules can be complicated, even for something that seems as simple as a home office deduction.*

If there's one common theme here, it's that tax laws can be complex even when they seem simple on the surface. When in doubt ask for help.

2025 Social Security Changes

Social Security has announced its cost-of-living adjustment for 2025, which are included below as well as the basics on how Social Security works.

Average Retirement Benefits - Starting January 2025
Average Benefits - All Workers

- 2025: $1,976/month
- 2024: $1,907/month

Maximum Benefits for Workers Retiring at Full Retirement Age

- 2025: $4,018/month
- 2024: $3,822/month

An 2.5% cost of living increase for Social Security retirement benefits and SSI payments begins with December 2024 benefits (payable in January 2025).

You can increase your Social Security retirement benefits by 5-8% per year when you delay applying until you're age 70.

Social Security Revenues & Expenditures
Revenue Sources = $1.35 trillion

- 3.7% - Taxation of benefits
- 5.0% - Interest
- 91.3% - Payroll taxes

Expenditures = $1.39 trillion

- 0.4% - Railroad Retirement financial interchange
- 0.5% - Administrative expenses
- 99.1% - Benefit payments

SOURCE: 2024 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table II.B1.

2025 Social Security & Medicare Tax Rates
Your employer pays **7.65%**
As an employee, you pay **7.65%**
If you're self-employed, you pay **15.3%**

NOTE: The above tax rates are a combination of 6.2% for Social Security and 1.45% for Medicare. There is also a 0.9% Medicare wages surtax for those with wages above $200,000 single ($250,000 joint filers) that is not reflected in these figures.

Item	2025	2024
Maximum earning amount subject to Social Security tax	**$176,100**	$168,600
Maximum amount you may pay in Social Security taxes (6.2%)	**$10,918**	$10,453

- ❖ **184+ million** people work and pay Social Security taxes
- ❖ Social Security has provided financial protection for Americans **since 1935**

How does Social Security work?

- ✓ When you work, you pay taxes into Social Security.
- ✓ The Social Security Administration uses your tax money to pay benefits to people right now.
- ✓ Any unused money goes into Social Security trust funds and is borrowed by the government to pay for other programs.
- ✓ Later on when you retire, you receive benefits.

How to qualify for retirement benefits
When you work and pay Social Security taxes, you earn **credits** toward benefits. The number of credits you need to earn retirement benefits depends on when you were born.

- ✓ If you were born in **1929** or later, you need **40 credits** (10 years of work) to receive retirement benefits
- ✓ You receive one credit for each **$1,810** of earnings in **2025**
- ✓ **4 credits** maximum per year

Did you know you can check your benefits status before you retire?

- ➢ You can check online by creating a my Social Security account on the SSA website. If you don't have an account, you'll be mailed a paper Social Security statement 3 months before your 61st birthday.

- It shows your year-by-year earnings, and estimates of retirement, survivors and disability benefits you and your family may be able to receive now and in the future.

- If it doesn't show earnings from a state or local government employer, contact them. The work may not be covered within Social Security.

Sources: SSA.gov

Taxes: Understanding the Essentials

Navigating the tax system can be challenging for everyone, whether you're an adult who hasn't paid much attention to paycheck deductions or a young person starting your first job. A crucial first step in managing taxes is knowing when to seek help, which begins with understanding what can be taxed.

Here are some key points to help you or someone you know better understand the basics of our tax system.

Different types of taxes

When you think about taxes, income tax is often the first to come to mind. Income tax is what you pay on the earnings from your job or from selling products and services. However, many other types of taxes exist. Here are some of the most common:

- **Payroll Taxes.** Unlike income taxes, which can fund various government programs, payroll taxes specifically support Social Security and Medicare. This tax amounts to 15.3% of most employees' paychecks, but half is typically covered by the employer.

- **Property Taxes.** These taxes are applied to property ownership, such as your home or vacation property.

- **Sales Tax.** This tax is levied on goods and services you purchase. While state and local governments primarily collect sales taxes, certain items like gasoline are also subject to federal sales taxes.

- **Capital Gains Taxes.** If you sell an investment or property for a profit, you may owe capital gains taxes. Selling stocks, homes, or rental properties at a profit could trigger these taxes.

- **Estate Taxes.** These are taxes applied to the assets within your estate after you pass away.

- **Inheritance Taxes.** As opposed to estate taxes, inheritance taxes are applied when you inherit money or assets after someone else passes away.

Not all income is taxable

While most of your income is taxable, some forms of income are exempt from taxation:

- **Interest from municipal bonds** is generally tax-free.

- **Life insurance benefits** often aren't taxed.
- **Capital gains on the sale of your primary residence** may be excluded up to a certain limit.

- **Estate tax exclusions** mean only estates exceeding a set dollar amount are subject to tax.

- Many **employee benefits**, such as health insurance, Health Savings Account (HSA) contributions, commuter benefits, and small employer-provided gifts, are also tax-free.

The tax rules governing these various types of income can be complex. That's why it's often helpful to have a professional guide you through your particular situation. Having a basic understanding of how taxes work, though, will help you to ask the right questions.

Beneficial Ownership Information Reporting – Required in 2024

A new 2024 requirement created by the Corporate Transparency Act requires action from you! Here is what you need to know:

What is it?
Beneficial Ownership Information (BOI) reporting. The Corporate Transparency Act requires **filing Beneficial Ownership Information reports** with the Financial Crimes Enforcement Network (FinCEN), a bureau of the U.S. Department of Treasury. The purpose of this act is to "help prevent and combat money laundering, terrorist financing, corruption, tax fraud, and other illicit activity."

Who does it affect?
The new requirements under the law are for corporate entities including:

- C-Corporations
- S-Corporations
- Partnerships
- Limited Liability Companies
- Trusts
- Other entities that were created by the filing of a document with the secretary of state or similar office under the laws of a State or Indian Tribe as well as those formed under the laws of a foreign country and registered to do business in the United States by the filing of a document with the secretary of state or similar office under the laws of a State or Indian Tribe.

When is it due?
These new filing requirements for entities which existed prior to January 1, 2024, is January 1, 2025. The filing deadline for new entities formed on or after January 1, 2024, is ninety days from the date of formation for those entities formed in the calendar year of 2024.

Who can help me with this?

The best person to help you with Beneficial Ownership Information reporting is your attorney or the legal service used to create your corporate entity. Coleman & Associates is unable to file these reports as these filings are legal in nature and our professional liability insurance does not cover these types of projects.

What happens if I am late or do not file?
Failure to comply with the requirements of this new federal law can result in steep civil and even criminal penalties.

More information can be found in the Useful Information section on the Forms, Documents & Links Page of our website here: https://www.colemancpas.com/resources/forms-documents-and-links.

As always, contact the office with questions by emailing us at info@colemancpas.com or calling 773-444-3100. We are here to help.