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MoneyMatters

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5 great things to know about IRAs

IRAs can be a powerful tool to lower taxes all while saving for retirement or other predetermined uses. Here are five fairly unreported things to know about IRAs.

- 1 A spouse without taxable income can have an IRA.** If your spouse doesn't have taxable income, you may still be able to open and contribute to an IRA for your spouse, assuming that you have taxable income and file a joint tax return.
- 2 Even children can have IRAs.** If your child has earned income, you can open and contribute to an IRA. Just ensure you can document the earnings. While your child can contribute their own earnings, many parents will help keep track of things like babysitting money, then match those earnings in either a traditional or Roth IRA. Often the Roth IRA is preferred, because the future earnings could be tax free! Your child's IRA is managed by an adult until the child is old enough for the account to be transferred to their name.

- 3 You may still contribute to an IRA if you have a 401(k) or similar program at work.** As long as you do not exceed the income limits, it is ok to have both an IRA as well

as other forms of retirement savings plans. It's simply important to know your options and plan accordingly.

- 4 Non-deductible contributions may be made.** If you exceed IRA income phaseouts, contributions to your IRA may not reduce your taxable income for the year. But you may still want to make after-tax contributions to a non-deductible IRA, as the earnings can still grow tax-deferred.

- 5 It's not just for retirement.** With traditional IRAs, if you withdraw funds before the age of 59 1/2 you may be subject to income tax AND an early withdrawal penalty. But there are exceptions to this rule. These include withdrawals for a first time home, major medical bills, college costs, birth/adoption and many others. However, it is important to know the rules BEFORE you withdraw the funds.

Tax rules surrounding IRAs are vast and complex. But within the rules are numerous situations that if you know they exist, can help you plan for a more tax efficient future. ♦

Everyday Advice

"The stock market is a device for transferring money from the impatient to the patient."

– Warren Buffett, American investor

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Watch out for these tax surprises!

Here are some common areas in the tax code that tend to create unwanted tax surprises:

Kids getting older tax surprise

Your children can be a wonderful tax deduction. But as they get older, many child-related tax breaks fall off and create an unexpected tax bill. And it does not happen all at once.

As an example, one of the largest tax deductions your children can provide you is via the child tax credit. If they are under age 17 on December 31st and meet several other qualifications, you could receive a credit up to \$2,000 for that child on your tax return. But you'll instantly lose this \$2,000 credit the year they turn 17.

Home sale tax surprise

When you sell a home you've been living in for at least 2 of the past 5 years, you may qualify to exclude from your taxable income up to \$250,000 of profit from the sale of your home if you're single or \$500,000 if you're married. But if you've claimed depreciation expense on a home office, you may be in for a tax surprise when you sell your home.

For example, let's say you've reported a combined \$5,000 of depreciation expense over the last five years on your home office. If you then sell your home, you may need to report that \$5,000 as taxable income, subject to a maximum tax rate of 25%!

Even worse, if your home office is located in a detached garage or other structure that is on your property but detached from your house, your tax bill could be even higher.



Limited losses tax surprise

If you have more than \$3,000 in losses from selling assets and you don't have a corresponding amount of gains from selling assets, you're limited to the \$3,000 loss.

For example, if you sell stock at a loss of \$5,000, you can match this loss against another asset you sell at a \$5,000 gain. But if you don't have another asset you sold at a gain, the most you can deduct on your tax return is \$3,000. The remaining loss can be carried forward to subsequent tax years.

Planning next year's tax obligation tax surprise

Tax planning for your 2022 tax return starts by looking at your 2021 tax return. But then take into consideration any changes occurring in 2022. Solely relying on your 2021 tax return to plan your 2022 tax obligation could lead to a tax surprise.

Please call if you wish to have a review of your situation. ♦

IRS Update

National Taxpayer Advocate concerned about refund delays and poor taxpayer service

In her midyear report, National Taxpayer Advocate Erin M. Collins expressed her concern about continuing delays in the processing of paper-filed tax returns and the consequent impact on taxpayer refunds. Among business taxpayers, many have been waiting extended periods to receive Employee Retention Tax Credits for which they are eligible, in addition to their regular refunds.

Other taxpayer challenges this year, according to Collins, have included return processing delays, correspondence processing delays, and difficulty reaching the IRS by phone.

Interest rates increase for third quarter of 2022

Interest rates for the third quarter in 2022 will increase compared to last quarter. These rates include: 5% for overpayments (4% for corporations); 2.5% for the portion of a corporate overpayment over \$10,000; 5% for underpayments and 7% for large corporation underpayments.

Under the Internal Revenue Code, the rate of interest is determined on a quarterly basis. For taxpayers other than corporations, the overpayment and underpayment rate is the federal short-term rate plus 3 percentage points. ♦

Tax Calendar

October 17

- Filing deadline for 2021 individual tax returns on extension.

4th Quarter

- Estimate your 2022 income tax liability and review options for minimizing your 2022 taxes. Call to schedule a tax planning review.

Tips to improve your credit score

YOU

POOR

FAIR

GOOD

EXCELLENT

If you want to improve your credit score, here are some tips that might make a difference.

- ✓ **Start by looking for errors on your credit report.** It's possible that a mistake was made on one of your credit reports. If you find an error, work to correct it and see your credit score rise! You are entitled to get a free copy of your credit report every 12 months from each credit reporting company: Equifax, Experian and TransUnion.
- ✓ **Pay bills on time.** The easiest way to improve your credit is to make your payments on time, as this is the most important part of your credit score equation. So gather all your monthly bills, identify the due dates, and take advantage of autopay to help make timely payments.
- ✓ **Keep credit card utilization as low as possible.** The amount of credit you're using at any given time is called your credit utilization, and is the second-biggest factor in your credit score. For example, if your credit card limit is \$5,000 and your balance is \$3,000, your credit utilization is 60%. Try to reduce this percentage to 20% or lower. You can do this by spending less or increasing your credit limits.
- ✓ **Sign up for score-boosting programs.** A newer way to help improve your credit score is to include information on your credit report that normally isn't reported. Programs like Experian Boost and UltraFICO help you add bills such as rent, utility, and cell phone payments to your credit report, and analyze how you use your checking, savings or money market accounts. Be aware that these programs may ask for access to your



bank accounts and that it can backfire if you have late payments on any of these accounts.

- ✓ **Avoid requests for new credit.** Trying to open a new credit or loan account could lower your score by as much as 10 points. In the long-term, your score can be maximized by having a diverse mix of different types of accounts,

such as having both credit cards and fixed-payment loans. But in the short-term, adding new accounts should be done with caution, as they will negatively affect your score.

How quickly you can raise your credit score depends on your individual situation. But following these tips will lead to a higher credit score sooner rather than later. ♦

DEBIT CARD FRAUD TIPS

Protection benefits can differ from credit cards

Most credit cards provide zero liability on any unauthorized charges. Debit cards also provide protection against fraudulent purchases, but there may be limitations depending on which financial institution issued your card. According to federal law, here is the maximum amount of fraudulent transactions you'll be responsible for depending on when you notify your bank that your card is lost or stolen:

- Immediately notify your bank..... Zero liability
- Within two business days..... Up to \$50
- After two business days but within 60 days Up to \$500
- Fail to notify within 60 days Unlimited

What you can do: Frequently review transactions online to identify any unknown charges. Notify your financial institution as soon as you realize that your debit card is lost or stolen. Also check with your bank to verify the liability coverage and the timing required to report fraud on your debit card. ♦

MoneyMatters

PRACTICAL TAX AND FINANCIAL ADVICE

Under the hood

The underbelly of replacing a totaled car

This is a true story. A car is rear ended by a distracted driver while waiting to turn left. The insurance company of the person who hit you considers your car a total loss. The amount the insurance company offers, though, is approximately 20% lower than the cost to replace the vehicle! Is this a mistake? As it turns out...no...it is a systemic occurrence of paying less than the Fair Market Value* by virtually all insurance companies.

The fair market value fallacy

The valuation of most vehicles deemed a total loss is determined by one company, CCC Intelligent Solutions. Per CCC, their services are used by 18 of the top 20 insurance companies. Their valuation model does NOT use a Fair Market Value standard to replace your vehicle. Instead, their model determines a value that, when compared to valuations found in Kelly Blue Book, Edmunds, and NADA, is systematically low.

Variables become an opportunity to cost you money

Here are three ways the CCC's valuation model works in the insurance company's favor:

- **The three-comp approach.** CCC's model compares your vehicle to three other vehicles versus applying the model against a large database. How these three vehicles are selected is a secret. In the above example, a local dealer had a similar model with similar miles at \$2,000 more than the CCC chosen vehicles. CCC and/or Allstate, the insurance company, refused to consider it as a comparable vehicle with no written explanation.
- **The mileage adjustment.** In the story above, the now-destroyed vehicle's lower mileage was given a credit of \$2,124, while online services valued the low miles at over \$3,000. This creates an instant savings of over \$800 for the insurance company!

- **The condition assessment reduction.** The model also uses a valuation reduction number against all three of the chosen comparable vehi-

cles. The description on their report is vague as to why the adjustment is made and whether the amount is reasonable.

The reason all this works is because valuation is never one number, but a range of values. The CCC model keeps the final valuation low, but not so low that it cannot be defended in court.

What you can do

- **Awareness is key.** Every consumer should know how this valuation model works. So, after an accident, plan on paying an additional 20% to 30% of your car's value to replace it with the same model in similar condition.
- **Avoid large car loans.** Understand that if someone totals your car, you'll need to come up with money to replace it. By avoiding large car loans, you may also avoid the financial chaos an accident may cause.
- **Challenge the replacement determination.** Before agreeing to total your vehicle, demand a repair estimate from a trusted autobody shop. Then look at the value of your car, reduce it by 20% to 30%, and see if you agree with the insurance company's total-loss determination.
- **Fight back.** Continually work to increase the insurance company's offer with facts. Consider making a formal complaint with representatives in your state. Demand that Fair Market Value, and not some unbalanced valuation model driven by a single company, is the only factor when valuing your totaled vehicle. ♦



* Fair Market Value standard as defined by the Internal Revenue Service in determining the value of all tangible assets, including automobiles.