

THE SMART TAX PLANNING NEWSLETTER

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MONTHLY NEWSLETTER

Prepared By

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IRAS FOR YOUNG ADULTS

As we navigate the complexities of financial planning, one opportunity stands out for young adults: individual retirement accounts (IRAs). With the 2023 tax-year contributions deadline fast approaching on April 15, 2024, now is the perfect time to consider how you can leverage an IRA.

Traditional and Roth IRAs: A Brief Overview

Both traditional and Roth IRAs offer unique benefits, so the choice between them largely depends on your current financial situation and future expectations. For the 2023 tax year, you can contribute up to \$6,500 or your earned income for the year, whichever is less. This cap increases to \$7,000 for the 2024 tax year.

Traditional IRAs provide the potential for tax-deductible contributions, which can be particularly advantageous if you're looking for immediate tax relief. The deductibility of your contributions may phase out based on your income and whether you're covered by a workplace retirement plan. It's also important to note that withdrawals from traditional IRAs are taxable, and early withdrawals may incur penalties.

On the other hand, Roth IRAs offer tax-free growth and tax-free withdrawals in retirement. Although contributions are not tax-deductible, the tax-free withdrawal benefit in retirement can be significant, if you expect to be in a

higher tax bracket when you withdraw your funds. Additionally, Roth IRAs do not require minimum distributions during your lifetime, offering more flexibility in retirement planning.

Key Considerations for Young Adults

Income limits and phaseouts. Be mindful of the income-based phaseout ranges that may affect your ability to contribute to Roth IRAs or deduct traditional IRA contributions.

Tax bracket considerations. Your current and expected future tax brackets are critical in deciding between traditional and Roth IRAs. If you anticipate being in a higher tax bracket in retirement, Roth IRAs may offer greater benefits.

Flexibility and future planning. Roth IRAs provide significant flexibility, allowing for tax-free and penalty-free withdrawals of contributions and offering benefits to your heirs.

The Power of Early Contributions

If you can start your IRA contributions while young, you can significantly impact your retirement savings. Even modest annual contributions can grow substantially over time, thanks to the power of compounding.



GET UP TO \$32,220 IN SICK AND FAMILY LEAVE TAX CREDITS

If you are self-employed or operate a small corporation, it's likely that you have not applied for your sick and family leave tax credits.

If that's the case, we will need you to get your act together so we can file amended 2021 and 2020 tax returns now. You could find up to \$32,220 in tax credits.

To see if you qualify for the credits, ask yourself if you were unable to work or perform services from April 1, 2021, through September 30, 2021, on any day, for one or more of the following reasons:

- 1.** You were subject to a federal, state, or local quarantine or isolation order related to COVID-19.
- 2.** You were advised by a health care provider to self-quarantine due to concerns related to COVID-19.
- 3.** You were experiencing symptoms of COVID-19 and seeking a medical diagnosis of COVID-19.
- 4.** You were seeking or awaiting the results of a diagnostic test for, or a medical diagnosis of, COVID-19.

5. You were exposed to COVID-19 or were unable to work pending the results of a test or diagnosis.

6. You were obtaining immunization related to COVID-19.

7. You were recovering from any injury, disability, illness, or condition related to such immunization.

8. You were caring for an individual who was subject to a federal, state, or local quarantine or isolation order related to COVID-19.

9. You were caring for an individual who had been advised by a health care provider to self-quarantine due to concerns related to COVID-19.

10. You were caring for your son or daughter because the school or place of care for that child was closed, or because the childcare provider for that child was unavailable, due to COVID-19 precautions.

11. You were accompanying an individual to obtain immunization related to COVID-19.

12. You were caring for an individual who was recovering from any injury, disability, illness, or condition related to the immunization.



If you answered yes to any of these 12 questions, you qualify for tax credits. And depending on the number of qualifying days and your income, such credits could total \$32,220 just for you. There's much to this, meaning, it's complicated. That said, complicated does not mean that you should not look into this strategy.



NEW CRYPTO TAX REPORTING RULES COMING SOON

If you invest or trade in Bitcoin, non-fungible tokens (NFTs), Stablecoins, or other digital assets, prepare for sweeping new tax reporting requirements.

Congress wants the IRS to crack down on taxpayers who buy and sell crypto but don't report or pay tax on their gains. To do so, it wants people and companies that facilitate the sale of digital assets to provide the IRS with the same information that stockbrokers must provide when selling stocks and other investments.

Crypto is complicated, so it has taken the IRS two years to draft over 280 pages of proposed regulations explaining how these new reporting requirements should work.

Starting with the 2025 tax year (which is just around the corner), digital asset brokers must file a new Form 1099-DA with the IRS whenever they facilitate the sale of digital assets. The 1099-DA will include such information as the customer name and TIN, sales proceeds, tax basis, and gains and losses.

“Digital asset” is defined broadly to include any digital representation of value recorded on a blockchain, including Bitcoin and other cryptocurrencies, Stablecoins, and NFTs.

“Digital asset brokers” includes any entities that provide services that facilitate sales of digital assets and that would typically know

or be in a position to know the identities of the parties involved in such sales. This includes digital asset trading platforms, payment processors, and many digital wallet providers.

The IRS scheduled the reporting rules to go into effect in two stages: For the 2025 tax year, brokers must report the gross proceeds of digital asset sales. For 2026 and later, brokers must report the adjusted basis and whether any gains or losses are short-term or long-term. Brokers do not have to report digital asset sales for tax years 2023 and 2024.

When the reporting requirements take effect, the IRS estimates that it will receive eight billion new Form 1099-DAs each year filed on behalf of 13 million to 16 million taxpayers.

Receiving Form 1099-DA should make your life easier when you file your tax return. You can rely on the gains and losses reported on the form when you complete your return.

The new rules will also enable the IRS to compare the amounts reported on Form 1099-DA with the numbers taxpayers report on their returns. If there is a discrepancy, the IRS system will automatically send you a notice to correct your error. So, the days of evading tax on crypto transactions may soon be over. The proposed regulations are not set in stone. There could be more changes before those rules go into effect.