# TaxUpdate

2025 TAX TIPS NEWSLETTER

## Be Prepared. Audits Still Happen.

Even with IRS staffing shortages, a high number of audits are still being conducted. This is because computer systems are kicking out tax returns that don't quite add up. So now is great time to make a final review of your tax return and documentation, to ensure you can defend it in case of an unforeseen audit. This can be in either paper or digital form as long as you know where it is, and you feel it will include documents to meet the requirements of substantiation. Here are some tips on what to save:

At a minimum, your records should include the following:

- A copy of your signed tax return and all supporting documents sent with your tax filing
- Copies of any worksheets that support your tax filing
- Canceled checks of deducted items
- Record of digital payment(s) and timing if using electronic payment systems
- Receipts supporting deducted items
- Bank statements
- Investment statements
- Form W-2s
- Form 1099s (all form types)
- Form 1095s (to support having valid health insurance)
- Mortgage statements (including annual interest paid and Form 1098)
- Form K-1 for partnerships, LLCs, or S Corporations
- Credit card statements
- Copies of any major purchases or sales (example: home closing documentation)
- Mileage logs for business, charitable and medical transportation
- Proper documentation for business meals and cell phone use
- Receipts for any charitable donations (both cash and non-cash donations)
- Support for all your itemized deductions
- Child care receipts and reporting
- Educational expenses
- Substantiation for value of large donations of property
- Proof of fair market value for any inherited items of value



## Ideas to Protect Your Social Security Number

With the dramatic increase in identity theft, why not remind yourself of the basics to reduce the risk of having your Social Security number (SSN) stolen. Here are some tips.

✓ **Do not carry your Social Security card with you.** Your parents were encouraged to do this, but times have changed. You will need to provide it to a new employer, but that is about it.

✓ **Know who NEEDS your Social Security number.** The list of people or organizations who need to have your number is limited. It includes:

- Your employer
- The IRS
- State revenue dept.
- Social Security admin.
- Retirement accounts
- Banks, investment co.

✓ **Do not use any part of your SSN for passwords or account access.** Many retirement plans use your number to enable you to access their online tools. When this happens, reset the login and password asap.

✓ **Do not note your full SSN on any form.** If you are required to give out your number, try marking out the first five numbers (xxx-xx-1234).

✓ **Do not put your SSN on your checks.** If requested by the government to place your number on a check for payment, simply put the last four digits.

✓ **Never give your Social Security number out over the phone or in an e-mail.**

Remember to periodically check your credit score with the major agencies to ensure your data has not been stolen.

## Turning Bad News into Good Tax News

With the fluctuating tariffs and turbulent markets, the last thing on most taxpayers minds is tax planning. But in the midst of all this turmoil is the potential for tax saving activity available to those willing to plan accordingly. Here is what you need to know.

In a turbulent market, transferring securities during a dip in the market can cut your taxes. So if you want to balance your retirement funds between pre-tax and after-tax obligations, now might be the time to act.

- ❑ Recall that traditional IRAs, 401(k)s and similar accounts must pay income tax upon fund withdrawal, whereas money withdrawn from Roth IRA and Roth 401(k) accounts generally are not taxable.


- ❑ There's no limit to the amount you can convert from a traditional IRA or 401(k) into a Roth IRA.
- ❑ Remember that tax rates tend to go up in the future.
- ❑ And the old ability to reconvert stocks from a Roth back into a traditional IRA or 401(k) is no longer possible.

So a set of stocks once worth $100,000 but are now valued at $70,000 can be converted now with $30,000 less in taxable income. If you are planning on holding the stock and you believe it will recover in the long run, you have a tax savings opportunity. Plus the future appreciation will no longer be taxed!

This tax savings idea is not for everyone. The stocks could decline further, creating an opportunity cost. So if considering this tax tip, it should be managed in conjunction with the appropriate planning and investment expertise. But if you're thinking about moving retirement funds between taxable and tax-free accounts, this could be a prime tax planning opportunity.



## Overlooked Taxable Events

Here are seven tax topics that seem innocent but can cause problems if not handled correctly.

1 **Gambling winnings.** If you receive a tax form at a casino for your winnings, that information is sent to the tax authorities. Since the form typically only contains the amount you won, save copies and records of any gambling losses.

2 **Maturing CDs.** Be careful with maturing CD's in a retirement account that are rolled over into new CDs. Normally it is straight forward and the interest is reported on a 1099-INT. But pay attention as your financial institution may provide you with tax forms showing the maturing CD as a distribution, but not report it as a rollover. You will need to account for this on your tax return!

3 **Retirement distributions.** Make note of any distributions from your retirement accounts and note the type of account. You should receive Form 1099s for the distributions. Depending on your age and the type of retirement account, a number of tax surprises could occur if not properly recorded. This includes early withdrawal penalties and potential required minimum distribution penalties.

4 **Gifts over $19,000.** If you provide gifts in excess of $19,000 ($38,000 for a couple) to any one person during the year, you must fill out a gift tax return.

5 **Contemporaneous documentation.** The time to put together proper documentation to support your deductions is when the activity takes place. For example, if you misplace a receipt for a charitable donation, you can go back to the organization and ask for a copy of the old receipt, but a new receipt to replace the one you lost is not valid documentation.

6 **Unemployment income.** Unless specifically excluded by the federal government, unemployment income is taxable. Many taxpayers become surprised by an unwanted tax bill when unemployment is involved.

7 **Digital assets.** If you have any transactions during the year using digital assets (cryptocurrency), you have a taxable event. This is because digital assets are seen as property in the eyes of the IRS. And if you use digital assets to purchase other capital goods, then you have two potential taxable transactions!

## Installment Sales: Tax Tips Abound

Generally, you create an installment sale when you receive payments for sold property in the tax year of the sale and at least one other tax year. For instance, if you sell real estate for a profit in 2025 and receive payments in 2025 through 2028, your real estate transaction is an installment sale.

An installment sale creates a tax event in each year you receive payments. Knowing this, here are some tips.

**TIP 1 Get long-term capital gain tax treatment.** The current tax rate on long-term capital gains is from 0 to 20 percent, compared with the top ordinary income tax bracket of 37 percent.

**TIP 2 Pay all at once or spread it out.** You also have the ability to pay all the tax due on the sale upfront, to avoid paying tax in future years. Choose what works best.

**TIP 3 Leverage installment sales to maximize your overall benefits.** In addition to determining the right approach to lower your total tax, the buyer will often pay a rate of interest to you higher than a typical bank loan for the remainder of the amount due.

*This publication provides summary information regarding the subject matter at time of printing.*
*Please call with any questions on how this information may impact your situation.*