

TaxUpdate

2026 MID-YEAR NEWSLETTER

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Is it really the IRS?

4 tips to ensure your security

Pretending to be an IRS agent is one of the favorite tactics of scam artists. And with the advent of sophisticated AI tools, it can be harder than ever to tell real from fake.

You can defend yourself against these scammers by knowing these simple rules:

TIP 1 Expect a letter first. In almost every case, the IRS will send you a letter via standard mail if they need to get in touch with you. This will alert you to expect future communication from the agency and instruct you on the best ways to get in touch with them.

What to do: If you get a letter from the IRS that is unexpected or suspicious, it should have a form or notice number searchable at www.irs.gov. If something doesn't look right, you can call the IRS help desk at 1-800-829-1040 to question it.

TIP 2 Never over email. The IRS will never initiate contact with you using email. A common scammer trick is to send emails to taxpayers using accounts and graphics that imitate the agency's logo. These emails may threaten imprisonment or fines if you don't pay up or promise an extra refund if you send money to prepay your taxes. Often the emails contain links to an official-looking fake website to collect payments. Click-

ing on them may also trigger the installation of virus programs on your computer.

What to do: Don't respond to any email communications supposedly from the IRS. Don't click on any links. Delete the email or forward it to phishing@irs.gov to help catch the scammers.

TIP 3 Proper phone call etiquette. After notification via the U.S. Postal Service, the real IRS may call to discuss options for handling delinquent taxes or an audit. A real IRS agent or a debt collector won't demand immediate payment, nor threaten lawsuits, arrest or deportation. Their tone should not be hostile or insulting. Finally, make payments only to the United States Treasury.

What to do: If you get a call from the IRS or an IRS debt collector, politely ask for the employee's name, badge number and phone number. They shouldn't hesitate to provide this information. Then end the call and dial the IRS at 1-800-366-4484 to confirm the person's identity.

TIP 4 Check in-person visits. Ask the person for their credentials. Every IRS agent is able to produce two forms of credentials: a pocket commission card and a personal identity verification card issued by the Department of Homeland Security, also called an HSPD-12.

What to do: Never provide sensitive information nor confirm information they may have without first independently verifying they are legitimate representatives of the IRS. If you have concerns, call the IRS at 1-800-366-4484 to confirm the person's identity.

You don't need to navigate this problem on your own. Call immediately for assistance. It's good to have a knowledgeable expert on your side.

Avoid a High Tax Bill Know when to ask for help

The key to a manageable tax bill is knowing when to ask for a review of your situation BEFORE you take action.

Here are some of the most common situations that can save you money by seeking advice before you act:

- Getting married
- Selling a home
- Donating stocks and investments
- Getting divorced
- Change in dependent status
- Approaching retirement
- Starting a business
- Managing participation in tax-advantaged retirement accounts like 401(k)s, 403(b)s, and various IRAs
- Death and birth of loved ones
- Donating high-value items
- Selling stocks, bonds, mutual funds, or business property (rentals)
- An audit
- Tax transfer of your estate
- Selling or buying high value assets (art, collectibles, real estate, and business assets)
- Determining your Social Security benefit strategy

When in doubt, please ask for assistance. There are too many stories that include the words "If only I had talked to you first!"

Important Tax Information

Understanding Early Withdrawal Penalties

Knowledge is key

It's a good idea to stay away from removing funds from your retirement account PRIOR to retirement unless absolutely necessary. Not only will you need to pay tax on the funds distributed unless it is a Roth account, but you may be subject to a 10% penalty (or more in some cases). Here is what you need to know.

The basics

Generally, if you participate in a tax beneficial retirement plan, you cannot withdraw funds until you reach the age of 59½. If you do, you are not only subject to income taxes, but also to an additional 10% early withdrawal penalty.

○ **Covered plans:** Qualified plans like 401(k)s, 403(b)s, and 457s. Plus IRAs, SEPs, SIMPLE IRAs and SARSEP plans.

○ **The penalty:** 10% early withdrawal penalty. 25% with SIMPLE plans when funds are withdrawn within 24 months of opening the account.

○ **Roth accounts:** The early withdrawal penalty exists with Roth IRAs if funds are withdrawn prior to age 59 1/2 or within 5 years of making the contribution. The penalty ONLY applies to earnings, as your contributions in this account were already taxed.

Penalty exceptions

The penalty does not apply in all cases of fund withdrawals. Here are some of the exceptions.

○ **Birth or Adoption.** Up to \$5,000 per child can be withdrawn.

○ **Death/Disability/Terminally ill**

○ **Disaster Recovery Distributions.** Up to \$22,000 if in a federally declared disaster recovery area.

○ **Victim of domestic abuse (spouse or domestic partner).** Up to \$10,000 or 50% of the account value, whichever is less.



○ **Medical Expenses.** If you need to withdraw from your IRA to fund medical expenses in excess of 7.5% of your Adjusted Gross Income.

○ **You're the Beneficiary.** If you are the beneficiary of someone else's IRA and they die.

○ **Conversions of Traditional IRAs to Roth IRAs.** Converting your Traditional IRA into a Roth IRA is considered a qualified event to avoid the 10% penalty.

○ **Substantially equal payments.** If you make equal payments for at least 5 years or until you reach age 59 1/2, using IRS approved calculations, AND are not employed by the employer sponsoring the plan, you can avoid the penalties.

The following are examples of penalty-free withdrawals from IRAs, but not available to qualified plans like 401(k)s.

○ **Medical Insurance Premiums** if unemployed for 12 or more consecutive weeks.

○ **Paying for Education.** You may pay for tuition, books, fees, supplies, and equipment at a qualified post-secondary institution.

○ **First-Time homebuyer expenses** up to \$10,000.

Remember, after age 59½ you will still need to pay any income tax due, but there is no early-withdrawal penalty. The penalty is also waived if you use the funds to pay an IRS tax levy. Before taking any action, please call to have your situation reviewed.

Paperless Refunds Clogged

Beginning this year, all tax refunds are being sent out digitally due to Executive Order 14247 which requires federal disbursements, including income tax refunds, to migrate from paper to digital form. Unfortunately, over a million refunds are stuck due primarily to this change. When this happens, you will receive an IRS notice CP53E. This is what you need to know:

Avoiding the problem

✓ **Apply refunds to next year's tax.** This avoids any of the potential digital refund mess.

✓ **Double check bank and routing numbers.** Pay special attention to ensure your bank account matches the tax return. Joint filers should be using a joint bank account, for example.

✓ **Keep it simple.** While you can have refunds made to up to three accounts, avoid the temptation. It reduces the chance that one of the three accounts jams your refund.

✓ **Track your refund.** If you feel there is a delay, use the IRS "Where's my refund?" tool before you receive the CP53E notice. You can then identify the problem proactively.

Fixing the problem

✓ **First, identify the problem, if you can.** Simply re-entering a bank account that does not work will often clog the stuck refund even worse.

✓ **Reply timely.** If you receive a CP53E notice, you have 30 days to reply.

✓ **Use the online tool.** The IRS wants you to log into your online account and fix it there.

✓ **You need to do this.** You cannot fix a bank number problem over the phone with the IRS.

The safety net

The IRS will still issue you a paper check if the problem is not resolved. It will just take six weeks or more to receive payment.

A Guide to Tax Record Retention

Before you close this year's tax file there is still some work to do. If the IRS or state revenue department selects your return for review, you'll need to be prepared. Here is what you need to do now:

□ **Keep a copy of your Form 1040 and related W-2s indefinitely.**

You may need it to correct historic Social Security earnings statements or to prove that you filed a tax return.

□ **Keep supporting documents three years.** W-2s, 1099s, K-1s, receipts, canceled checks, bank statements and mileage logs should be kept for at least three years from the later of the tax filing due date, the date you filed your taxes, or the date you paid your tax in full.

□ **Property and investment records need to be held** at least three years after they are sold or disposed of to prove taxable gains and losses.

□ **Be mindful of other record retention requirements.**

- 6 to 12 months for state record retention
- Requirements for insurance, banking, or estate management
- 6 years if unreported income is more than 25%
- 7 years if bad debt or worthless securities
- No limit for fraudulent returns

If you're unsure whether to retain or shred something, keep it unless you know the document can be replaced.