

# CLIENT UPDATE

PRACTICAL TAX & FINANCIAL ADVICE

## The good – and not so good – of AI

The rapid integration of Artificial Intelligence (AI) into everyday tools—like search engines, smart speakers, and virtual assistants—illustrates the challenges that come with disruptive innovation. Here’s a quick look at how AI is improving our lives, but where we also need to take a step back to be more cautious.

### The upside of AI: Empowering efficiency

- **Has instant access.** Unlike humans who are prone to distractions, emotions, or getting tired, AI can operate without any such issues. Since it’s powered by algorithms, human-related points of failure such as stress-induced errors are virtually eliminated.
- **Accelerates data processing.** AI can quickly sift through vast amounts of data, pinpointing inconsistencies, outliers, and trends in seconds. Tasks that would take a human hours, if not days, are reduced to mere moments, allowing us to focus on higher-level analysis and decision-making.

- **Always available for automated tasks.** AI automates repetitive tasks, cutting down on administrative busy work and freeing up our time for more complicated tasks. It’s also always available – wherever you have an internet connection.

### The downside of AI: Tread carefully

- **Plagiarism will happen.** AI doesn’t care if the information it creates is owned by someone else. This plagiarism can happen when creating music, text, voiceovers, and other forms of creative expression.
- **AI blends truth AND fiction.** While AI excels at many things, fact-checking and proper citations aren’t among them. Like Wikipedia, AI can be a useful starting point but shouldn’t be trusted as a sole authority. AI’s outputs may include inaccuracies, making it unreliable for in-depth research or professional use.
- **Lacks true creativity.** AI may do a great job to organize and repackage information, but it still falls short when it comes to true innovation. Creativity, by nature, is abstract and requires out-of-the-box thinking that AI has yet to master. Its outputs are rooted in existing data, meaning that groundbreaking ideas remain out of reach.

- **Reduces critical thinking skills.** While technology often makes life easier, it can also make us mentally lazier. Think about how difficult navigating a new city would be without GPS! Similarly, if we become overly reliant on AI for decision-making, our critical thinking skills may weaken over time, leading to a decline in actual human intelligence.

- **Can lead to serious legal and tax issues.** Relying on AI for legal, tax, or other professional advice can leave you in hot water. While AI may be appropriate for initial research on a particular issue, remember that AI itself isn’t a registered attorney or tax preparer. You should still rely on the knowledge and experience of professionals when advice is needed.

### The verdict: Use AI as a tool, not a crutch

AI has the potential to be a powerful tool to complement our own human ideas and capabilities. It’s far from ready, though, to be the sole source of truth. Like any emerging technology, it should be approached with both curiosity and caution. ♦

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# CLIENT UPDATE

W I N T E R 2 0 2 4



## Be aware of these 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

Many have retired and then withdraw from a 401(k) fully expecting that they won’t owe income taxes. Unfortunately, money withdrawn at any age from a traditional 401(k) – or a traditional IRA – incurs income taxes at your current tax rate.

**Tip:** 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 these winnings from sweepstakes, casinos, bingo, keno, online sports betting, and the like.

**Tip:** 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.

### Myth #3: Government benefits like unemployment and Social Security aren’t taxable

Unemployment benefits are taxed as ordinary income at the federal level and in some states. Social Security is also taxed, but in a much more confusing way. Supplemental Security Income payments, on the other hand, are not taxable.

**Tip:** 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 tax return.

### Myth #4: I work from home and can write off my office expenses

Only a business operating out of a home can deduct home office expenses. Employees who work from home are out of luck. If a business is exclusively operated out of a home, there are still hurdles to clear before qualifying to use the home office deduction.

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

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1.800.888.5803  
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## TIPS to BOOST your RETIREMENT SAVINGS

**TIP# 01** Make saving automatic every month

Meet your employer’s match

**TIP# 02**

**TIP# 03** If possible, contribute to BOTH your workplace plan and an IRA

Review child and spousal retirement account options

**TIP# 04**

**THANK YOU!**

We appreciate your business and continued support. Wishing you a happy holiday season and a prosperous 2025.

# Banks won't always save you from

**SCAMS**



It's easy to feel secure about the money you deposit with a bank you've come to trust. After all, most banks and credit unions offer certain levels of protection against fraudulent transactions. Banks, however, won't protect you against all types of fraud.

Here's a look at the protections that banks usually provide to their customers to help you identify during which situations you'll likely be on your own.

## When a bank usually protects you

For credit cards, banks usually 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 before any unauthorized charges are made: 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

## When a bank usually WON'T protect you

Unfortunately, there are many types of scams that banks won't reimburse you for if someone steals your money. Here are some of the more common scams:

- You are scammed into moving money out of your account and into another person's account.
- A hacker uses lies to convince you to make a bank transfer into a cryptocurrency wallet.

- You liquidate your retirement funds and send the money to someone else for any reason, even if you were conned into it.
- You make a person-to-person transfer to another individual through PayPal, Zelle or another money app, and that transfer doesn't come with any type of purchase protection.

## How to protect yourself from common banking scams

Here are several ideas to protect yourself from getting scammed:

- **Don't communicate account details unless you initiate the conversation.** If someone calls about your bank account, hang up and call the financial institution directly using your normal means of contact.
- **Never share your information.** Don't share account details or personal information online or using a messaging app, especially if you were asked to share these details via email or text message.
- **Tell someone.** Scammers try to isolate you from family members and friends. If you're unsure about a banking transaction you plan to make, or you wonder if you're being victimized, tell someone you trust about the situation.
- **Ask your bank for help.** Bank tellers are trained to spot the early signs of a fraudulent transaction. If you're making a bank transfer and feel unsure about the situation, explain it to a teller or bank representative and ask for their help.
- **Report the incident.** Whether you've already been scammed or you spotted the attempted scam before withdrawing any money, submit a report of the situation by visiting [ReportFraud.ftc.gov](https://www.reportfraud.ftc.gov).

## IRS Update

### Taxpayers encouraged to look at paycheck withholding heading into 2025

The IRS reminds taxpayers that late 2024 and early 2025 is a great time to look at your paycheck's tax withholding amounts. Various life events in the preceding 12 months such as births, deaths, marriage and divorce, can potentially lead to a taxpayer owing a different amount of taxes in 2025 than they owed in 2024.

Taking a fresh look at your withholdings can determine if you have too much withheld and whether an adjustment would put more cash in your pocket. If not enough is being withheld, it could lead to an unexpected tax bill when filing your tax return.

### Maximum Social Security tax bill goes up in 2025

The maximum amount of Social Security taxes you'll have to pay in 2025 is \$10,918.20, a jump of 4.5% from the \$10,453.20 maximum amount in 2024, the Social Security Administration announced in its annual cost-of-living increase report.

The amount of taxable earned income subject to the 6.2% Social Security tax rate (12.4% for self-employed) is \$176,100 in 2025, up from \$168,600 in 2024.

Social Security benefits will also be increasing by about 3.6%. Average retirement benefits starting January 2025 is \$1,976 per month, up from \$1,907 per month in 2024.

### Interest rates remain the same for fourth quarter of 2024

Interest rates for the fourth quarter in 2024 remain unchanged compared to last quarter. These rates include: 8% for overpayments (7% for corporations); 5.5% for the portion of a corporate overpayment over \$10,000; 8% for underpayments and 10% for large corporation underpayments. ♦

## Tax Calendar

**January 15, 2025**

- Due date for the fourth installment of 2024 individual estimated tax.



# The 2025 tax law uncertainty

With the changes in Washington D.C., there is now some uncertainty about what tax policies we may see in 2025 and beyond. During this time of uncertainty, it is tough to create a workable tax plan. But not to fear. There are several things that we DO know about tax changes to start 2025. Here are the key highlights as they are currently known.

## What we DO know

- ▶ **Tax brackets and rates.** The seven tax rates remain unchanged while the income subject to each rate got a slight bump (see table below). After a 5.4 percent increase in 2024, there's an additional 2.8 percent increase in income subject to each tax rate in 2025. This means more of your income will be subject to a lower tax rate.
- ▶ **Higher retirement plan limits.** The amount you can contribute to a 401(k) in 2025 is \$23,500, up from \$23,000 in 2024. The 401(k) catch-up contribution limit in 2025 stays at \$7,500 if you're ages 50 to 59, and age 64+. New in 2025, if you are ages 60 to 63, the catch-up contribution limit increases to \$11,250. The annual contribution threshold for IRAs remains at \$7,000, as does the IRA catch-up contribution limit of \$1,000.
- ▶ **New cryptocurrency reporting rules.** New reporting rules in effect as of January 1, 2025 means you'll need to be more vigilant with tracking your cryptocurrency transactions and complying with the IRS's digital asset rules. Brokers of digital

assets, including cryptocurrency exchanges, custodial services, and certain payment processors, must report sales and exchanges of digital assets to the IRS starting in 2025. Your digital asset transactions will be summarized annually on a new Form 1099-DA. This new reporting of digital asset transactions will be similar to existing reporting for traditional securities such as stocks and bonds.

## Changes on the horizon

- ▶ **The 1099-K reporting threshold.** If you use third party payment processors like Venmo or sell tickets on apps like SeatGeek, you're more likely to receive a tax form of your activity that will also be sent to the IRS. The limit requiring your activity to be reported was \$5,000 in 2024. As of presstime, the IRS has not announced the reporting threshold for 2025, but it could be as low as \$600.
- ▶ **Uncertainty over TCJA provisions.** There has been discussion about extending and/or making permanent many of the provisions contained in the Tax Cuts and Jobs Act (TCJA) of 2017. Most of the provisions are scheduled to expire at the end of 2025, so we will pay attention to any legislation forthcoming that could change any of this tax landscape.
- ▶ **Proposed decrease in corporate tax rates.** There is also discussion about lowering the corporate tax rate from its current level of 21%, in addition to lowering the effective corporate tax rate from 21% to 15% for domestic manufacturers.

Stay tuned for continuing updates of any tax changes as events unfold in 2025. ♦

## INCOME BRACKETS FOR 2025 TAX RATES

TAX RATE	SINGLE	MARRIED FILING JOINT/WIDOW	HEAD OF HOUSEHOLD	MARRIED FILING SEPARATE
10%	\$1 - 11,925	\$1 - 23,850	\$1 - 17,000	\$1 - 11,925
12%	11,926 - 48,475	23,851 - 96,950	17,001 - 64,850	11,926 - 48,475
22%	48,476 - 103,350	96,951 - 206,700	64,851 - 103,350	48,476 - 103,350
24%	103,351 - 197,300	206,701 - 394,600	103,351 - 197,300	103,351 - 197,300
32%	197,301 - 250,525	394,601 - 501,050	197,301 - 250,500	197,301 - 250,525
35%	250,526 - 626,350	501,051 - 751,600	250,501 - 626,350	250,526 - 375,800
37%	Over \$626,350	Over \$751,600	Over \$626,350	Over \$375,800

## KEY RETIREMENT PLAN LIMITS

RETIREMENT PLAN	2025	2024	CHANGE	AGE 50+ CATCH-UP
401(k), 403(b), 457 plans	\$23,500	\$23,000	+\$500	Add \$7,500*
IRA: Roth	\$7,000	\$7,000	—	Add \$1,000
IRA: SIMPLE	\$16,500	\$16,000	+\$500	Add \$3,500**
IRA: Traditional	\$7,000	\$7,000	—	Add \$1,000

\*For 2025, a higher catch-up contribution limit of \$11,250 applies for taxpayers ages 60 to 63.

\*\*For 2025, employees of eligible small businesses can contribute up to \$17,600, with an age 50+ catch-up limit of \$3,850.

This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be easily summarized. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

## STANDARD DEDUCTIONS

ITEM	2025	2024	CHANGE
Single	\$15,000	\$14,600	+\$400
Married Joint/Widow	30,000	29,200	+\$800
Head of Household	22,500	21,900	+\$600
Married Filing Separate	15,000	14,600	+\$400
Elderly/Blind: Married	+\$1,600	+\$1,550	+\$50
Elderly/Blind: Unmarried	+\$2,000	+\$1,950	+\$50

## MAXIMUM EARNED INCOME TAX CREDIT

# OF CHILDREN	2025	2024	CHANGE
No Child	\$649	\$632	+\$17
1 Child	4,328	4,213	+\$115
2 Children	7,152	6,960	+\$192
3+ Children	8,046	7,830	+\$216