ClientLine®

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THE IRS ENFORCEMENT SPOTLIGHT MAY BE ON YOU

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Following a top-to-bottom review of enforcement efforts, the IRS has launched a sweeping, historic effort to "restore fairness in tax compliance" by focusing more on high-income earners, partnerships, and corporations. Under the auspices of a newly created unit in the business division, the IRS will leverage Inflation Reduction Act funding to enforce compliance. These efforts are consistent with a broader commitment to use that funding to end the era of misbalancing in audit selection.

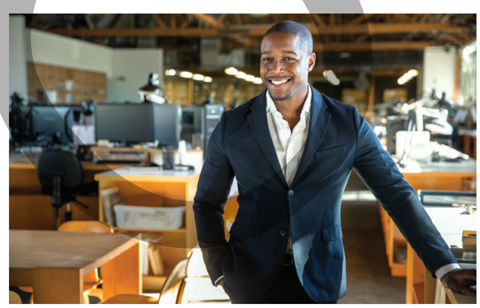
THE TARGET

Pass-through organizations, the unit's focus, include partnerships and S-corporations. These groups are not subject to the corporate income tax; instead, income is "passed through" to the income-tax returns of the individual or corporate owners and taxed at their income-tax rates. Pass-throughs are frequently used by higher-income individuals and can be complex tax arrangements.

A COORDINATED EFFORT

The IRS will coordinate with the National Treasury Employees Union (NTEU) on this enforcement effort. The NTEU is expected to be on board later this year. Meanwhile, work involving pass-through areas will continue to intensify.

The enforcement group will eventually include employees currently in the Large Business and International Division, and large partnerships, and, eventually, the Small Business/Self Employed division focusing on smaller partnerships and self-employed.



The changes will be driven with the help of improved technology and Artificial Intelligence that will aid the IRS compliance teams in detecting tax cheating, identifying emerging compliance threats, and improving case selection tools to avoid burdening taxpayers with needless "no-change" audits.

IMPORTANCE TO YOUR BUSINESS

While this new spotlight may not affect your business directly, the IRS's tilt toward more scrutiny on high earners may. More than ever, business owners need the guidance of professionals in tax and financial planning. Why not set an appointment with your tax professional to review any business or personal tax strategies you have in place?

SAFETY DEPOSIT BOXES

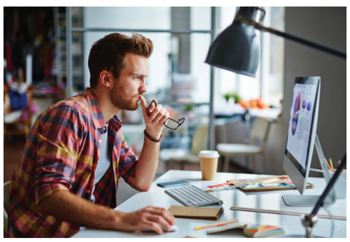
With digital records, safe deposit boxes are so 20th Century. Right? Not necessarily. You may have situations in which you'll be asked to produce original documents (including those with raised seals). Not to mention valuables that can't be digitized. Items to keep in your box:

- Social Security cards
- Birth, marriage, divorce, and death certificates
- Paper stock and bond certificates
- Collectibles and not-often-used jewelry (make sure they're insured, as neither the FDIC nor banks insure box items)
- Insurance home inventory
- Property records
- Home improvement records and receipts
- Car titles

Generally, financial professionals recommend a bank safe deposit box over a home one.

CLIENT PROFILE

Sean and Caelin are talented artists who recently launched a freelance creative services business to see if being self-employed full-time could be an option. Sean is keeping the books, and so far, so good. But he sought professional advice to help avoid errors.



During their initial meeting, their CPA shared some systems and processes for Sean and Caelin to implement:

- ◊ A receipt capture, filing, and backup system, particularly for digital records
- ◊ A checks and balances policy that requires someone other than the bookkeeper to make deposits and review bank statements and canceled checks monthly
- ◊ Reconciliation of credit card statements each month and loan accounts at least annually
- ◊ Use of accounting software, but avoid overreliance on the software in lieu of professional guidance.

Now, they're also all set with a professional to do their first tax return.

Client Profile is based on a hypothetical situation. The solutions discussed may or may not be appropriate for you.

STAY ON THE COMFORTABLE RETIREMENT TRACK

There's no better time than the beginning of a new year to review your retirement plan and, if possible, increase your contribution to the maximum allowed, if possible.

PRIORITIZE PLANS

Start by maximizing contributions to your business's 401(k) or other company retirement savings plan.

Next up: IRA contributions, if you're eligible. Start with traditional tax-deferred contributions. Then contribute to a Roth IRA. Mind income limits for IRA participation.

Consider a regular taxable brokerage account once you've exhausted tax-advantaged retirement accounts. You'll have the flexibility to use those retirement funds whenever and however you choose.

CATCH-UP CONTRIBUTIONS

If you're 50 or older, make catch-up contributions, if possible. An additional incentive to make maximum tax-deferred catch-up contributions to 401(k) Roth accounts in 2024 and 2025: The IRS delayed the SECURE 2.0 Act provision that prevents individuals earning over $145,000 from making pre-tax catch-up contributions to Roth 401(k) accounts until 2026.

This reprieve also gives you, as an employer, more time to implement the Roth 401(k) catch-up change and inform employees about this upcoming change.

HEALTHY MONEY HABITS

Your relationship with money may have its roots in your childhood. How your family handled their finances can affect your attitude toward spending and saving as an adult. Make sure you're practicing good money habits like the ones below.

EXAMINE YOUR SPENDING HABITS

Buying small items impulsively can add up to a substantial amount over time. Write down every penny you spend for a few weeks. You can adjust your spending habits once you see where your money is going.

LIVE WITHIN YOUR INCOME

Paying with cash means you'll be able to spend only as much money as you have on hand. If you use a credit card, make sure you can pay off the balance when the bill comes.

PAY YOURSELF

Treat your savings as a bill by putting money in your account every month before you spend it. As your income rises, increase the amount you're saving.

FOLLOW A SPENDING PLAN

Build a monthly budget based on your income and expenses. Remember to account for items you pay yearly, such as insurance, HOA or property taxes.

PASSING ON FAMILY HEIRLOOMS & KEEPSAKES

People understandably overlook addressing more minor, personally meaningful items such as heirlooms and keepsakes when creating an estate plan. This oversight can be a fuse for family disputes.

TALK AHEAD OF TIME

While you're in good health, get together with your personal representative and loved ones. See who wants what. For fairness, you might have each person pull a number from a hat and, in order, have them name one personal item they'd like. Write down their responses. Repeat as needed.

You may find no one wants your grandmother's crystal, your baseball card collection, etc. Work out any rivalry for an item now. Make clear that you'll instruct your personal representative to liquidate items not on the list and distribute the cash or donate it to charity.

PUT IT IN WRITING

Schedule an appointment with your legal professional to amend your will or trust to spell out your bequests. Alternatively, many states let you draft a memo listing what you want to give and to whom. If the memo is incorporated in a will or trust, it's legally binding. Sign and date it.

Q **We're planning our summer vacation. Do you have any tips on getting a good deal on a vacation rental?**

A Consider lowering the cost of renting an apartment, condo, or home for your vacation by:

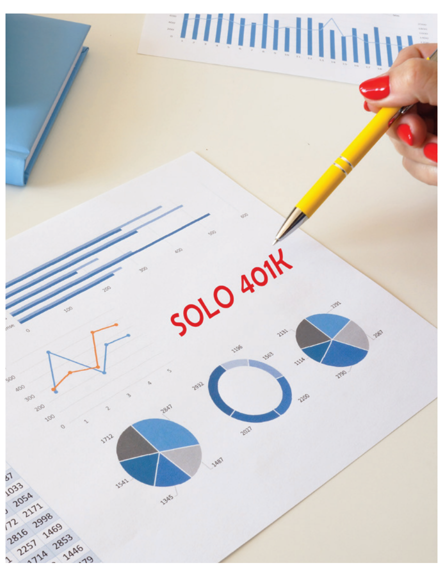
- Cutting out the middleman markup by renting directly from the property owner using online sites such as Airbnb and VRBO.
- Booking closer to your vacation time if you're willing to chance not getting your first choice. According to Airbnb, you'll generally find the best price four weeks before your vacation.
- By looking at properties outside tourist hot spots, you may find comparable places that are much less expensive.

DON'T FORFEIT YOUR SOLO 401(K)

A Solo 401(k) plan is an excellent way for sole proprietors to pack away retirement funds. In 2024, you can contribute up to $23,000 ($30,500 if you're 50 or older) in pre-tax dollars. As the employer, you can also make matching contributions to your account.

SOLO 401(K) PLAN ADVANTAGES

Administrative simplicity is a major plus with Solo 401(k) plans. Nondiscrimination testing is not necessary and there are minimal filing requirements. Additionally, there are no "fidelity bonds" or traditionally required ERISA Title 1 notices for employees required.



THERE'S A CATCH

Before you choose a Solo 401(k), beware that you cannot have any employees (other than your spouse), so if you have employees or want to hire employees in the future, this plan is not for you. That's because Solo 401(k)s automatically lose their qualified plan status as soon as a common-law employee meets the plan's participation requirements.

If you have a Solo 401(k) and find you need to hire help, consult your professional advisor about amending plan documents, before they become eligible to participate. Otherwise, you risk disqualification, penalties, and contribution refunds. If you have two plans, remember elective deferral limits are by person, not by plan.

A SURPRISING EMPLOYEE FLIGHT-RISK

According to an ADP Research Institute study,* about 30% of employees leave their jobs within a month of their first promotion. Generally, the risk of a worker in the same position leaving at any given time is 18%. Employees in jobs that require little to no training, such as warehouse or hospitality workers, leave at especially high rates. So do those in roles requiring graduate school or an advanced technical degree.

REASONS FOR FLIGHT

One reason for leaving is that employees may feel overwhelmed because they didn't receive the training to succeed in the new position. Another is that the promotion has given them the confidence to seek a new job that pays more, has better benefits, or offers more opportunities. A third is that the promotion comes too late, and the employee has already started looking for a new position and receives a better offer shortly after the upgrade.

SOLUTIONS

The months after a promotion are critical to retaining the employee. Provide adequate training and support to help the employee succeed. You can ask another employee to mentor the employee. Follow up with the employee post-promotion. After three months, he/she will know whether the job is as described to them and at six months, whether it is a good fit. The ADP study found that the likelihood of a promoted employee leaving after six months is the same as for other workers.

**The Hidden Truth about Promotions, ADP Research Institute, 2023*

Signs of Employee Flight Risk

- *01.* Decreased productivity
- *02.* Lack of attention in meetings
- *03.* Arriving late and missing work
- *04.* Apathetic with manager
- *05.* Repudiates long-term deadlines
- *06.* Expressing job dissatisfaction