Second Quarter 2024

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FINANCIAL IDEAS FOR TODAY AND TOMORROW

# Footnotes

## Start Your Tax Planning NOW!

Keeping your taxes as low as possible requires paying attention to your financial situation throughout the year. Here are some tips for getting a head start on tax planning for your 2024 return:

**REVIEW YOUR PAYCHECK WITHHOLDINGS.** Now is a good time to check your tax withholdings to make sure you haven't been paying too much or too little. The IRS has a tool on its website (https://apps.irs.gov/app/tax-withholding-estimator) that you can use to help calculate how much your current withholdings match what your final tax bill will be.

***Action step:*** *To change how much is withheld from your paycheck in taxes, fill out a new Form W-4 and give it to your employer.*

**DEFER EARNINGS.** You could potentially cut your tax liability by deferring your 2024 income to a future year via contributions to a retirement account. For 2024, the 401(k) contribution limit is $23,000 ($30,500 if 50 or older); $7,000 for both traditional and Roth IRAs ($8,000 if 50 and older); or $16,000 for a SIMPLE IRA ($19,500 if 50 and older).

***Action step:*** *Consider an automatic transfer from either your paycheck or checking account to your retirement account so you won't have to think about manually making a transfer each month.*

**PLAN WITHDRAWALS FROM RETIREMENT ACCOUNTS TO BE TAX EFFICIENT.** Your retirement accounts could span multiple account types, such as traditional retirement accounts, Roth accounts and taxable accounts like brokerage or savings accounts. Because of this, consider planning your withdrawals to be as tax efficient as possible.

***Action step:*** *One way to structure withdrawals is to pull from taxable accounts first and leave Roth account withdrawals for last. Another approach is to structure proportional withdrawals from all retirement accounts which would lead to a more predictable tax bill each year.*

**NET CAPITAL GAINS WITH CAPITAL LOSSES.** If you have appreciated investments you're thinking about selling, take a look through the rest of your portfolio to see if you have other assets that you could sell for a loss and use to offset your gains. Using the tax strategy of tax-loss harvesting, you may be able to take advantage of stocks that have underperformed.

***Action step:*** *Make an appointment with your investment advisor to look over your portfolio to see if there are any securities you may want to sell by the end of 2024.*

Tax planning can potentially result in a lower bill from the IRS if you start taking action now. Please call if you have questions about your tax situation for 2024.

**Nick Aarsen is the partner in charge of our Ames and Ankeny offices.**

FROM THE PEN OF A PARTNER

# Making Social Security Part of Your Wealth Plan

While Social Security provides a steady income source in retirement, it is a taxable benefit for many, so high-income earners should be strategic about how it fits into their overall wealth management plan.

**Review Income Sources Prior to Receiving Social Security.** You'll want to work with a wealth advisor to develop a strategy for how you draw income in retirement, including taking withdrawals from a combination of tax-deferred, tax-free and taxable accounts.

For example, prior to receiving Social Security as a component of your income, you may withdraw money from your 401(k) and IRA after age 59½ without triggering an early withdrawal penalty. You will pay tax on these distributions. If you have a Roth IRA, you must be 59½ and meet the five-year holding requirement before taking a distribution of earnings from your account without incurring taxes or penalties.

**How to Decide When You Take Social Security.** There's no one right answer as to when you should begin receiving your Social Security benefit—it's a very individual decision. A lot of factors will influence that decision, including your health, ability or desire to continue working, the age and health of your spouse, the type of assets you will use to draw income from, the tax impact, as well as your overall financial and legacy goals.

If you choose to wait until after your full retirement age to receive Social Security (between age 66 or 67 for most people currently approaching retirement), then being strategic about how to use other sources of retirement income leading up to that age is important. You can receive the benefit as early as age 62, but if you take it early, you will receive a reduced benefit for life.

**Social Security Strategy for Spouses.** The answer to the question "Which spouse should take Social Security first?" is that it depends on the earnings history and age of each spouse. One of the factors used to calculate your benefit is your top 35 years of earnings. With that being said, in general, it's often beneficial for the higher-earning spouse to delay taking the benefit as long as possible. If that spouse can wait until age 70, he or she will be at the maximum age and receive the maximum benefit based on their earnings. This means the couple will enjoy a larger monthly benefit during life, and if the higher-earning spouse passes away, the surviving spouse will receive a larger monthly benefit. Of course, the effectiveness of this strategy again depends on each spouse's health and whether they are close in age.

If you were born on or before January 1, 1954, it's possible for the higher-earning spouse to collect half of the other spouse's benefit while he or she continues to work, and his or her benefit continues to grow 8% annually up to age 70.

If you both were born after 1954, there is no creative claiming strategy. Each will be paid the highest amount to which they are entitled at their age of claim, whether it's on their own earnings record or as a spouse. In other words, they don't get to choose which benefit they want to receive. There are a lot of complexities to calculating each spouse's benefit, so consult with your wealth team on your situation.

**When Is Social Security Taxable?** The IRS calculates how much of your benefit is taxable based on your adjusted gross income (AGI) from other sources such as wages, required minimum distributions, interest and dividends. After that, half of your Social Security benefits are factored in to get to a combined taxable income amount. The IRS will apply a tax rate based on your combined income. As a high-income earner, up to 85% of your benefits could be taxable.

You can review and download your Social Security benefit statement anytime to see your earnings history and projected monthly benefit prior to starting to take withdrawals. Simply set up a *my* Social Security account at ssa.gov. Workers who are age 60 and older who don't have a *my* Social Security account will receive their

Social Security benefit statements three months prior to their birthday.

Once you start receiving benefits, your statement will detail your benefit amount for the previous year so that you can figure out what you owe on those benefits. You may choose to have federal taxes withheld from your payouts before you receive them. Certain states also tax Social Security, so check in with your tax professional about your personal tax situation.

### Consider Consulting With an Advisor

Similar to an annuity in that it pays a recurring monthly benefit, Social Security should be integrated into your overall wealth management plan. As you near retirement, your portfolio may shift toward more conservative investments, such as cash and bonds, so between your portfolio and Social Security, you want to ensure all your retirement income sources cover your expenses.

Hogan - Hansen, P.C. partners with Mariner Wealth Advisors, LLC to provide access to in-house wealth management expertise and solutions. Our collaborative approach enables us to look at your whole financial picture and partner with you on a wealth plan for retirement that evolves along with your needs.


*"Paying Taxes on Social Security Income,"* Investopedia.
*"Social Security Claiming Strategies for Married Couples,"* Investment News.



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# Partner With a Tax Expert if the IRS Comes Knocking

Sleuthing your way through a tax audit or responding to a letter from the IRS by yourself is not the same as fixing a leaky faucet or changing your oil. Here are reasons to partner with a tax professional as soon as you receive a letter from the IRS:

**IRS auditors do this for a living – you don't.** Seasoned IRS agents see your situation many times and know the rules better than you. Even worse, they are under no obligation to teach you the rules. Just like a defendant needs the help of a lawyer in court, you need someone in your corner that knows your rights and understands the correct tax code to apply in correspondence with the IRS.

**Insufficient records will cost you.** When selected for an audit, the IRS will typically make a written request for specific documents they want to see. The list may include receipts, bills, legal documents, loan agreements and other records. If you are missing something from the list, things get dicey. It may be possible to reconstruct some of your records, but you might have to rely on a good explanation to avoid additional taxes plus a possible 20% negligence penalty.

**Too much information can increase audit risk.** While most audits are limited in scope, IRS agents have the authority to increase that scope based on what they find during their original analysis. That means if they find a document or hear something you say that sounds suspicious, they can extend the audit to additional areas. Being prepared with proper support along with concise answers to their questions is the best approach to limiting further audit risk.

**Missing an audit deadline can lead to trouble.** When you receive the original audit request, it will include a response deadline (typically 30 days). If you miss the deadline, the IRS will change your tax return using their interpretation of findings, not yours. This typically means assessing new taxes, interest and penalties. If you wish your point of view to be heard, get help right away to prepare a plan and manage the IRS's deadlines.

**Relying on an expert gives you peace of mind.** Tax audits are never fun, but they don't have to be pull-your-hair-out stressful. A tax expert can help map out a plan and take it step-by-step to ensure the best possible outcome. You'll rest easy knowing your audit situation is being handled by someone with the proper expertise that also has your best interests in mind.

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# NOTABLE QUOTES

*If you smile when you see a butterfly, you have happiness in your soul.*

- DIANA COOPER

Your self worth is determined by you. You don't have to depend on someone to tell you who you are.

- BEYONCE KNOWLES

**Try to be a rainbow in someone's cloud.**

- MAYA ANGELOU

Promise me you'll always remember - you're braver than you believe, and stronger than you seem, and smarter than you think.

- CHRISTOPHER ROBIN, WINNIE THE POOH

**Every strike brings me closer to the next home run.**

- BABE RUTH

*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 and/or professional assistance.*

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