"TAX TALK" with Teresa Herrin, CPA - January 18, 2023

We always learn a lot when we meet with Teresa! Multiple topics – a few examples follow:

- The IRS has a statute of limitations to assess taxes against you. The time period to assess taxes is called Assessment Statute Expiration Date (ASED). How long the IRS has to assess taxes depends on the situation. The general rule is that the IRS has 3 years to audit a taxpayer's income tax return and assess back taxes against them. The 3-year ASED starts on the date you file your tax return, unless you file it early. ("Negligence" can extend the period.)
- Home office – "exclusive" use – know the square feet of your office proportion of your house – include mortgage, taxes, utilities, HOA (reminder – you'll always have a recapture of depreciation taken)
- Purchasing energy-efficient windows and kitchen appliances – there's a cap in 2023
- DIY tax work with Turbo Tax, W2s, 1099-Rs, interest, using standard deduction; consider professional help with investment interest expense, when itemizing, costs to protect your assets, etc.
- Chance of audit – IRS has lost staff and office cutbacks are at about the 1970s level: don't file "early" (you'd be in line for a possible audit)
- Records to keep – all business records for the life of that entity – protect your "basis", keep "improvement" records, have your backup with you in case of audit.
- What is a required minimum distribution (RMD), and why should I care about it**?** An RMD is the smallest amount you must withdraw from your tax-deferred retirement accounts every year after a certain age. At some point in your life, you may have put money into tax-deferred retirement accounts, such as IRAs and 401(k) workplace retirement accounts. The key word here is "tax-deferred." You postponed taxes on your contributions and earnings; you didn't eliminate them. Eventually, you must pay tax on your contributions and earnings. RMDs make sure that you do that. You must start taking RMDs by April 1 of the year after you turn 73. (You don't need to take distributions of a ROTH IRA.)
- Tax Brackets Include Social Security - a portion of your Social Security (SS) benefits may be subject to federal taxation using tax brackets. Your tax bracket is determined by your net taxable income, as shown on Form 1040. This value is your gross value minus all allowable deductions. For social security income that is combined with your other income, some of you have to pay federal income taxes on your Social Security benefits. This usually happens only if you have other substantial income in addition to your benefits (such as wages, self-employment, interest, dividends and other taxable income that must be reported on your tax return). You will pay tax on only 85 percent of your Social Security benefits, based on Internal Revenue Service (IRS) rules.
- Selling a home – include the "improvements" to your house (such as including multiple repairs to your roof; keep all your records of remodels, repairs, additions, etc.)
- King County Assessment (for property tax in 2023) – based in January 2022 of three comparable sales in your area; assessed value has historically been lower than this year.

In response to a question about wind damage to your home in the recent storm, keep records of your repairs and replacements as "improvements" to the value of your home. Whether to submit an insurance claim, consider talking with an insurance broker about any cause & effects of using your homeowner's insurance down the road. Will it affect the sale of your home (if you had a claim on your homeowner's insurance)? There can be issues with some claims staying on the record and effecting the sale or affecting your ability for insurance. Also, in this current environment, the insurance brokers are letting us know that some insurance companies do not want to write new policies. They are really changing the landscape of insurance due to the massive payouts they are being hit with. So, before you make that claim, do some research.

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