



SSTAR Services
4266 Gem Avenue
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www.yourtaxreturn.com

Accounting, Real Estate and Tax Services

Items to be Aware of for Tax Seasons Present & Future

I will keep up with the current tax code - but you should keep up with this stuff

- 1) The Franchise Tax Board (state of CA) - for the first time - is checking for duplicate dependent claims. If you claimed a dependent who was already claimed on another return, they will adjust the return by the value of the dependent. Only the IRS did this prior to 2024. One more loophole closed ☹
- 2) Money donated to "Go Fund Me" (and similar organizations) is usually NOT a tax deduction. You are sharing money with individuals and organizations that are (most likely) NOT registered charities.
- 3) I WILL take new clients who are NEW family members. It occurred to me I should be doing both returns if they interact with each other. Best for everyone.
- 4) If you get a letter from the IRS or FTB - scan a copy and send it to me right away so we can respond and resolve the issue. Do NOT wait until the busy part of next year's tax season.
- 4B) **NOT SURE** about something on your 2024 return? Ask me NOW. Don't wait until the busy part of next tax season. I cannot respond to prior-year tax issues when I am inundated with current-year tax preparation.
- 5) No, putting money in a 401(k) will NOT change a current year return. Let's say you are in a 20% tax bracket. Putting \$1,000 into deferred comp reduces your taxable income (W-2 Box 1) by \$ 1000 - AND reduces your withholding (W-2 Box 2) by \$200. Net change on tax return - ZERO. Deferred comp is a long-term consideration, not an immediate one. You are avoiding paying 20% now - with the hope you will pay less later on that same money when you retire.
- 6) Motor Vehicle Purchases on Tax Returns? - Not really. The deduction for sales tax is only taken if (1) You complete Schedule "A" Itemized Deductions (the "long" form) and (2) the sales tax paid exceeds your state income taxes paid. In plain English, you need to be a low-income taxpayer with a mortgage and a very high-value car purchase. Usually never happens.



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- 7) If you are going to do something that will substantially change your return (sell a LOT of stocks, withdraw funds from a retirement account BEFORE age 59 1/2) - why not call your friendly neighborhood tax preparer so we can plan for that event and avoid depressing news when you file ?
- 8) Speaking of planning - if any of your dependents are will be 17yo, the Child Tax Credit goes away. That's a \$1500 hit for most taxpayers. And if you are down to your last dependent (child) and they will be 24yo, your filing status will shift from "Head of Household" to "Single". Both of these changes usually require changing your W-4 and DE-4 to avoid a large bill at year's end. Also -
- 8B) If you owed - and you change nothing - expect similar results in 2026 ☹
- 8C) NOTHING changes when they age from 17 to 18. They can be dependents on your return through age 23 if they are in school or their income is not substantial compared to yours. After 23 they MUST make less than \$5200.
- 9) Question - I took money out of my retirement plan early (before age 59.5) and they took taxes out - why do I owe so much? Answer - "Standard" withholding on these withdrawals is 10% or 20% federal / 1% or 2% state. The taxes and penalties can exceed 40%. I call it "the most expensive money in the world".
- 10) Increasing Your Refund (or reducing what you owe) - Did you owe, or was your refund less than you expected? You can have additional taxes taken out at work on Federal W-4 Line 4c or State DE-4 Line 2. An extra \$20 / period (assuming bi-weekly pay) reduces your weekly pay by \$10 - but will raise a refund (or lower a balance due) by over \$500 over the course of an entire year.
- 11) DONATIONS - Should "look" like donations. \$500 to ASPCA? Yes. \$188.50 to PBS? Looks like you bought something - which means it's (maybe) not a donation. If necessary, round up (donate a little more) and make the deduction look like a donation and not something else. My kid's high school soccer registration was \$235 (or something like that). I always gave them \$250.
- 12) There are NO work-related deductions for W-2 employees. Zero. Only self-employed persons (1099-NEC income) can take deductions against income.



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13) If You Move - Send me an e-mail and update your address so you get my mailing. If you do not receive the annual mailer, I will post a link on the web site January 5th so it can be downloaded anytime (yourtaxreturn.com).

14) **If You Start a Corp, LLC, Estate or Trust** - Download a "New Business Worksheet" from my web site (yourtaxreturn.com) **immediately** and send the completed form to me. These returns have a lot of set-up work and are due MARCH 15th (not April) and I need to file extensions early. Once the "busy" season starts (February) I won't have the time to set these up.

14B) I composed a comprehensive guide to business entities - yourtaxreturn.com, "General Topics", "Businesses - What Type?". Please read this **BEFORE** you decide which type of business is best for you. Look before you leap...

15) **PROGRESS?** For 2024, if you gave me one W-2 and one 1099-G, it generated a 3 page federal return - and a 13 page state return. Idiotic....

16) **Disability** - Is not considered income and is not taxable. No tax forms.

17) Tax Returns are due April 15th - **but income taxes are due when the income is earned**. If you wait until you file to pay and you do not pay 100% of the prior year's tax amount or 90% of the current year's tax, you will be penalized - not for filing late, but for paying late. Plan ahead.

18) **PERMANENT** tax law changes that started in 2018 (will not expire in 2025)
A) No penalties for not having health insurance (please stop sending me 1095-B and 1095-C) and (B) Alimony non-deductible for separations after Dec 2018.

19) **#1 W-4 MISTAKE - STILL**. Married persons, when both spouses work, claiming "Married" on their W-4 and DE-4 payroll withholding forms. Only check this box if you have a non-working spouse with zero income. Otherwise, you are each claiming yourself and your spouse, and that's four people total.

20) Stay of trouble of having to repay CoveredCA by **OVERESTIMATING** your income on the application. Otherwise they charge you extra tax when you file.



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21) (a) Are you putting money into deferred compensation (a retirement plan)? Great. (b) Do you have 3 month's living expenses in the bank to cover short-term emergencies? If (a) is "yes" and (b) is "no", why plan 30 years ahead but not 3 months ahead? If you have a financial emergency and no short-term savings and raid your retirement fund before age 59 1/2, you will lose 1/3rd to 1/2 the amount you withdraw. Don't let this happen to you! No rainy-day bank savings? Do NOT do deferred compensation (401-K) until you have one.

22) **Getting Married?** - Please look on my web site "yourtaxreturn.com" under "General Topics, Filing Status". Learn how it will affect you. Second, do NOT change your W-4 to "married" UNLESS your spouse has zero income. Checking that box says you have a non-working spouse, which is not true for most folks.

OK, that's the problem with the post-season letter - I want to get it out early but I keep adding to it. Lastly, I understand the IRS will be trying out new collection methods soon. I will close with a cartoon referring to that change...

MALLARD FILLMORE: By Bruce Tinsley



Stacy Spink, SSTAR Services