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Tax Newsletter

Latch Onto the Childcare Credit
Tax break for summertime costs

If you have young children and you have a job, you probably have to make arrangements for your kids while you work. Although they may attend pre-school or elementary school, the summer can pose even greater challenges—often at a high cost.

Silver tax lining: At least you may be able to qualify for the dependent care credit (commonly called the "childcare credit"). Generally, the credit is available for childcare costs incurred during the summer, as well as the rest of the year.

Although recent tax law enhancements to the credit have expired, you can still generally reduce your federal income tax bill by up to $1,200 in 2024.

Basic ground rules: To qualify for the credit, you must incur expenses of caring for a child under age 13 (or another qualifying individual) so you can be gainfully employed. A married couple is treated as being "gainfully employed" if one spouse works full-time and the other works either full-time or part-time or is a full-time student. In either event, a married couple must file a joint return to claim the credit.

Currently, the applicable credit percentage is 35% of the qualified expenses for parents with an adjusted gross income (AGI) of $15,000 or less. The percentage is reduced by 1% for each $2,000 that your AGI increases until it bottoms out at 20%. Thus, the credit is effectively 20% for those with an AGI above $43,000.

The credit is available for the first $3,000 of qualified expenses for one child and $6,000 for two or more children. This results in a maximum credit of $600 for one child and $1,200 for two or more children if you have more than $43,000 in AGI.

The list of qualified expenses includes traditional costs like babysitters, day care centers and nursery schools. But it might cover more than you think during the summer months. For instance, childcare costs incurred at a municipal pool, rec center or country club may qualify for the credit. So can the cost of sending a child to a day camp where they participate in recreational activities like swimming, boating or hiking. However, the cost of an overnight camp does **not** qualify for the credit.

This includes camps run by the Boy Scouts, Girl Scouts or other organizations. The day camp can even be a "specialty camp" emphasizing a particular skill or pursuit. For instance, you might enroll your science progeny in an academic camp or send the next John McEnroe or Serena Williams to a tennis camp. The full cost of attending the specialty camp is eligible for the credit, but you cannot add on expenses for special equipment, uniforms or supplies.

Scout it out: Remember to obtain all the information needed for claiming the credit on your personal tax return, including the day camp's name, address and taxpayer identification number. This information is needed for your 2024 return. Also, you may be entitled to state income tax benefits. Your professional tax advisor can provide more details.

Pros and Cons of Living Trusts
Consider estate planning technique

Although a revocable living trust can be valuable supplement to a will, this estate planning device is not necessarily for everyone.

Basic premise: Typically, you transfer assets to a trust and name someone to act as the trustee. Assuming you become the "initial beneficiary," you are entitled to receive income from the trust for the rest of your life. You also designate the "secondary beneficiaries" of the trust at the outset. This can be your spouse or your children—or both.

After your death, the assets are distributed to the secondary beneficiaries or the trust continues, depending upon your instructions. While you are alive, you have the power to (1) sell the trust assets and keep the proceeds, (2) amend the terms of the trust (e.g., change the secondary beneficiaries) and (3) revoke it entirely. The trust becomes irrevocable upon your death.

Potential Advantages

A living trust may provide the following benefits.

- Property transferred by a will is subject to probate. This may become costly for your family. Conversely, property passing by a trust does not have to go through the probate process. It is generally less expensive to wind up the trust's affairs.

- Probate can be time-consuming. It may take months or even longer before the executor of your will is free to distribute assets. However, a trustee of a living trust does not have to wait for court approval. The trust assets can be distributed almost immediately after death.

- If, for some reason, you are no longer physically or mentally able to manage your affairs, a living trust offers protection. You have a trustee of your choice who is able to manage your assets so your family does not have to get embroiled in lengthy court proceedings to have a guardian or conservator appointed.

- A living trust can also help alleviate financial concerns of the parents of a disabled or incompetent child. The parents can rely on the trust to provide a steady stream of income when they are no longer around to care for the child.

Potential Disadvantages

On the other hand, there are several possible drawbacks to living trusts.

- You may be able to avoid probate for certain assets without setting up a trust (e.g., by acquiring property jointly with your spouse). Furthermore, it is likely that some of your assets will have to be probated anyway.

- Depending on your situation, the cost and complexities of probate may not be overly burdensome in your state (assuming you have a legally-enforceable will in place).

- If you retain the right to revoke the trust, the assets will be included in your taxable estate, even if you never make the revocation. The same is true if you keep the right to income from the trust or the right to use its assets.

- A living trust does not save income taxes either, if you retain control over the trust. During your lifetime, the income from the trust is taxed directly to you, whether or not you actually receive it.

In summary: Rely on your professional advisors. After analyzing your situation, you can make an informed decision about this estate planning technique.

IRS Airs Its Dirty Dozen Tax Scams
New list for 2024 warns taxpayers

The IRS recently issued its list of the "Dirty Dozen" tax scams to watch out for in 2024. Here is a brief overview.

1. Phishing/smishing: Scam artists often "phish" for sensitive information by inviting you to click on a link designed to look like it originates from an authentic source, like the IRS. Or they may email you and threaten legal action. Smishing is a comparable version that uses texting.

2. Employee retention credits: The IRS has been warning taxpayers about promoters making fraudulent employee retention (ERC) claims all year. This credit is only available for qualified businesses that retained workers during the pandemic.

3**. Online accounts:** Someone may offer to help you create an online account with the IRS for free. What is the catch? They need your personal information—including your Social Security number (SSN)—to set up the account. Then they use the info illegally.

4. Fuel credit claims: A fuel tax may apply to taxpayers engaged in certain agricultural and transportation activities. However, they may be fooled into thinking that they qualify for refunds if they pay fees to a promoter, much to their dismay.

5: Offer-in-compromise mills: Under the Offers in Compromise (OIC) program, taxpayers who owe tax may be able to negotiate a deal with the IRS. But OIC "mills" can charge taxpayers who do not qualify for a settlement and/or charge exorbitant fees.

6. Fraudulent charities: In the wake of a natural disaster, a scam artist may contact you for donations that are not funneled to a legitimate charitable cause. Similarly, they may promote tax deductions in cases where the organization is not tax-exempt.

7. Ghost tax return preparers: The vast majority of tax practitioners are reputable. But some "imposters" falsify returns, charge sky-high fees or steal your refunds. Not surprisingly, these ghosts quickly "vanish" into thin air.

8. Social media sites: Are you active on social media sites like TikTok, Facebook, Instagram or X? Do not follow tax advice from these online sources. The information may be inaccurate, misleading or flat-out illegal.

9. Spearphishing: Spearphishing is a phishing scam targeting specific individuals or businesses. For example, the con artist may pretend to be a client or representative from a bona fide organization. Then they steal your information and file a fraudulent individual or business tax return under your name.

10. Fraudulent art deductions: Normally, you can deduct artwork donated to charity if you otherwise qualify. But watch out for promoters who try to sell you art at a discount. They will claim you can donate it and deduct a higher amount.

11. Abusive tax avoidance schemes: These schemes can take many forms ranging from syndicated conservation easements to micro-captive insurance arrangements. Be wary of "something that sounds too good to be true."

12. International schemes: Finally, the IRS points to scams involving cash funds and digital assets hidden offshore, Maltese retirement accounts and foreign captive insurance.

Do your best to stay vigilant. Do not hesitate to ask questions or seek guidance from your trusted professional advisors.

Two "Extra" Gift Tax Breaks

Under the annual gift tax exclusion, you can give each recipient up to $18,000 in 2024 without paying any gift tax. But there are two additional gift tax strategies you might use.

1**. Medical expenses**: No gift tax is imposed on amounts paid for another person's medical expenses. Pay the bills directly to the health care provider.

2. **Education expenses:** No gift tax is imposed on amounts used to pay tuition and related fees on behalf of another person. Pay the educational institution directly.

Neither type of gift reduces the annual gift tax exclusion or lifetime gift tax exemption. Coordinate all your lifetime gifts.

Facts and Figures
Timely points of particular interest

Home Energy Credits—The IRS is reminding taxpayers that they may qualify for either or both of two tax credits for energy-saving improvements made to their home this summer: (1) the Energy Efficient Home Improvement Credit or (2) the Residential Clean Energy Credit. Each credit is equal to 30% of the cost up to certain annual maximums. The eligible expenses range from insulation to solar energy panels. Good recordkeeping in this area is essential.

IRS Releases Data—According to the new "Data Book" for the IRS' 2023 fiscal year, the agency issued $659 million in refunds, up 2.7% from 2022. It also examined 0.44% of individual returns and 0.74% of the corporate returns that were filed for 2013-2021. Notably, the IRS website experienced more than 880.9 million visits in 2023, including more than 303.1 million "Where's My Refund?" inquiries. For more Data Book information, visit www.irs.gov/statistics/soi-tax-stats-irs-data-book.