



November 2024



A number of myths about the IRS and the tax code have been gaining traction online. Believing these misconceptions could unfortunately lead to a bigger tax headache for you. In this month's newsletter, learn about several tax myths and how you can avoid them.

Also find out how much Social Security benefits are increasing in 2025, how to avoid sneaky add-on fees, and the good and not-so-good of AI.

Please pass this information on to anyone that may find it useful and call if you have any questions or concerns.



## Watch Out for These Tax Myths

*MYTH: /miTH/ (noun) – a widely held but false belief or idea*

Many myths about the IRS and the tax code have been amplified online in recent years.

Here are several myths that if you believe them, could leave you with an expensive tax surprise.

### **Myth #1: Retirement money is always tax free.**

You have retired and withdraw from a 401(k) fully expecting that you won't owe income taxes. Unfortunately, money withdrawn at any age from a 401(k) – or your traditional IRA – incurs income taxes at your current tax rate.

**Lesson Learned:** *Understand how money in each of your retirement accounts is taxed when withdrawn. Some will have income taxes, some could incur early withdrawal penalties, while some incur no tax at all!*

### **Myth #2: The government won't find out about a big gambling win.**

Gambling winnings are considered taxable income to the feds and most states. The IRS generally wants about a quarter of your winnings from sweepstakes, casinos, bingo, keno, online sports betting, and the like. Casinos and other betting entities also inform the IRS of your winnings over certain thresholds. So it is always best to keep track of your winnings.

**Lesson Learned:** *Gambling winnings fall under tax rules just like other forms of*



### **Reminder**

- Conduct year-end tax and financial planning

## Avoid Sneaky Fees Draining Your Bank Account



Inflation isn't the only reason why your wallet or purse feels lighter these days. Sneaky fees are finding their way into things we buy every day. Here are some common fees you may encounter and what you can do to avoid them altogether.

### **Common areas with sneaky fees**

- **Checking account fees.** Banks love to nickel and dime you with fees if you don't maintain a minimum balance or have sufficient direct deposits. It creates a gotcha moment at the end of the month.

- **Dealership fees.** Buying a vehicle? Dealers are known for tacking on hidden charges like vehicle prep fees. These can easily inflate the sticker price if you're not paying attention.

- **Ticket broker fees.** Concert or sports event tickets seem expensive enough, but when ticket brokers add an additional service fee, it's almost enough to make you stay home. These fees can be up to several hundred dollars!

income. Deducting gambling losses is possible, but it has limits that are subject to strict rules. For example, you must itemize deductions on your tax return if you don't declare yourself a self-employed professional gambler.

**Myth #3: Government benefits like unemployment and Social Security aren't taxable.**

Unfortunately, unemployment and Social Security benefits are usually taxable. Unemployment benefits are taxed at your normal tax rate as income at the federal level and in some states. Social Security is taxed, but in a much more confusing way. Supplemental Security Income payments, on the other hand, are not taxable.

**Lesson Learned:** Plan ahead to mitigate the tax shock. You can have taxes withheld from your unemployment benefits so you don't have to pay a lump sum when you file your return. With Social Security benefits, understand when and how they can be taxed, since up to 80% of these benefits could be subject to income tax by the federal government.

**Myth #4: I work from home and can write off my office expenses.**

You can only deduct home office expenses if you operate a business out of your home. If you're an employee, you're out of luck. If you do run a business exclusively out of your home, there are still hurdles to clear before you qualify to use the home office deduction.

**Lesson Learned:** Tax rules can be complicated, even for something that seems as simple as a home office deduction.

If there's one common theme here, it's that tax laws can be complex even when they seem simple on the surface. When in doubt ask for help.

## The Good - and Not So Good - of AI

- **Vacation rental fees.** Dreaming of a vacation getaway? Convenience fees, cleaning fees, and other add-ons can push the cost of your vacation rental sky-high, turning your relaxing trip into a financial drain.

### Smart moves to outsmart sneaky fees

#### Here's how you can fight back.

- **Understand the fees before you start.** For example, when you are considering a rental, get a breakdown of all the fees before you book. The same holds true for buying a car or a plane ticket. The vendors technique of hiding fees to make a service look cheaper does not need to work when you buy.

- **Negotiate like a pro.** Ask questions or challenge fees you don't understand. Whether it's a merchant, a car dealer, or a bank, there's often room to negotiate. You might be surprised how often they'll waive the fees just because you ask.

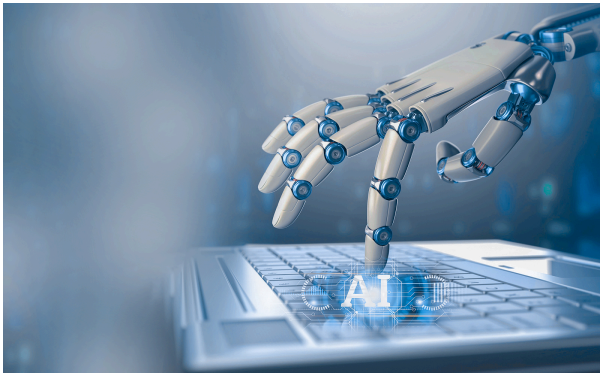
- **Switch providers.** Many companies charge for services that others offer for free. Tired of your bank's account fees? Look for one with a truly free checking account—because yes, they do exist.

- **Cut out the middleman.** Avoid unnecessary fees by dealing directly with providers. For example, if you're booking a vacation rental, skip platforms like Airbnb that charge a convenience fee and book directly through the owner when possible.

- **Say no.** Sometimes the best way to save is simply not to buy. If a purchase or service comes with fees that seem outrageous, you can always walk away. By saying no, you send a message to companies that you won't tolerate being taken advantage of—and you'll save money in the process.

By knowing how to spot and challenge these fees, you can stop the drain on your wallet and take back control of your finances. After all, it's not just about cutting costs—it's about standing up for yourself and your money.

## Taxes: Understanding the Essentials



At its heart, technology exists to solve problems and enrich our lives, but its journey is rarely straightforward.

The rapid integration of Artificial Intelligence (AI) into everyday tools—like search engines, smart speakers, and virtual assistants—perfectly illustrates the challenges that come with disruptive innovation.

Here's a quick look at how AI is improving our lives, but where we also need to take a step back to be more cautious.

### The upside of AI: Empowering efficiency

- **Has instant access.** Unlike humans who are prone to distractions, emotions, or getting tired, AI can operate without any such issues. Since it's powered by algorithms, human-related points of failure such as stress-induced errors are virtually eliminated.
- **Accelerates data processing.** AI can quickly sift through vast amounts of data, pinpointing inconsistencies, outliers, and trends in seconds. Tasks that would take a human hours, if not days, are reduced to mere moments, allowing us to focus on higher-level analysis and decision-making.
- **Always available for automated tasks.** AI automates repetitive tasks, cutting down on administrative busy work and freeing up our time for more complicated tasks. It's also always available – wherever you have an internet connection.

### The downside of AI: Tread carefully



**Navigating the tax system can be challenging for everyone, whether you're an adult who hasn't paid much attention to paycheck deductions or a young person starting your first job.**

**A crucial first step in managing taxes is knowing when to seek help, which begins with understanding what can be taxed.**

Here are some key points to help you or someone you know better understand the basics of our tax system.

### Different types of taxes

When you think about taxes, income tax is often the first to come to mind. Income tax is what you pay on the earnings from your job or from selling products and services.

However, many other types of taxes exist. Here are some of the most common:

- **Payroll Taxes.** Unlike income taxes, which can fund various government programs, payroll taxes specifically support Social Security and Medicare. This tax amounts to 15.3% of most employees' paychecks, but half is typically covered by the employer.
- **Property Taxes.** These taxes are applied to property ownership, such as your home or vacation property.
- **Sales Tax.** This tax is levied on goods and services you purchase. While state and local governments primarily collect sales taxes, certain items like gasoline are also subject to federal sales taxes.
- **Capital Gains Taxes.** If you sell an investment or property for a profit, you may owe capital gains taxes. Selling stocks, homes, or rental properties at a profit could trigger these taxes.
- **Estate Taxes.** These are taxes applied to the assets within your estate after you pass away.
- **Inheritance Taxes.** As opposed to estate taxes, inheritance taxes are applied when you inherit money or assets after someone else passes away.

- **Plagiarism is likely to occur.** AI doesn't care if the information it creates is owned by someone else. This plagiarism can happen when creating music, text, voiceovers, and other forms of creative expression.
- **AI blends truth AND fiction.** While AI excels at many things, fact-checking and proper citations aren't among them. Like Wikipedia, AI can be a useful starting point but shouldn't be trusted as a sole authority. AI's outputs may include inaccuracies, making it unreliable for in-depth research or professional use.
- **Lacks true creativity.** AI may do a great job to organize and repackage information, but it still falls short when it comes to true innovation. Creativity, by nature, is abstract and requires out-of-the-box thinking that AI has yet to master. Its outputs are rooted in existing data, meaning that groundbreaking ideas remain out of reach.
- **Reduces critical thinking skills.** While technology often makes life easier, it can also make us mentally lazier. Think about how difficult navigating a new city would be without GPS! Similarly, if we become overly reliant on AI for decision-making, our critical thinking skills may weaken over time, leading to a decline in actual human intelligence.
- **Can lead to serious legal and tax issues.** Relying on AI for legal, tax, or other professional advice can leave you in hot water. While AI may be appropriate for initial research on a particular issue, remember that AI itself isn't a registered attorney or tax preparer. You should still rely on the knowledge and experience of professionals when advice is needed.

***The verdict: Use AI as a tool, not a crutch***

- AI has the potential to be a powerful tool to complement our own human ideas and capabilities.

- It's far from ready, though, to be the sole source of truth.

## Not all income is taxable

While most of your income is taxable, some forms of income are exempt from taxation:

- **Interest from municipal bonds** is generally tax-free.
- **Life insurance benefits** often aren't taxed.
- **Capital gains on the sale of your primary residence** may be excluded up to a certain limit.
- **Estate tax exclusions** mean only estates exceeding a set dollar amount are subject to tax.
- Many **employee benefits**, such as health insurance, Health Savings Account (HSA) contributions, commuter benefits, and small employer-provided gifts, are also tax-free.

The tax rules governing these various types of income can be complex. That's why it's often helpful to have a professional guide you through your particular situation.

Having a basic understanding of how taxes work, though, will help you to ask the right questions.

## 2025 Social Security Changes

### 2025 Social Security

Find out how your benefits have changed



### Average Retirement Benefits Starting January 2025

Average Benefits - All Workers

- 2025: \$1,976/mo (+\$69)
- 2024: \$1,907/mo

### Maximum Benefits for Workers Retiring at Full Retirement Age

- 2025: \$4,018/mo (+\$196)

- Like any emerging technology, it should be approached with both curiosity and caution.



## Remove the Stress from Paying Student Loans

Paying off student loans can be a daunting task. However with a planful approach, making your loans disappear can be a lot more manageable.

Here are some tips to help make paying off your student loans less stressful and hopefully quicker!

- **Refinance your loans.** You may be able to lower your monthly payment by refinancing your current student loans over a longer period of time. And a lower monthly payment could give you more breathing room in your monthly budget. Refinancing may also provide the opportunity to secure a lower interest rate, which could add up to more savings for you. Refinancing federal student loans with a private lender, though, means losing certain federal protections, such as income-driven repayment plans and loan forgiveness options. Before refinancing, consider your financial situation and evaluate if this is the best option for your circumstances.

**Tip:** Shop around to compare rates and terms from different lenders. Even a small reduction in your interest rate can save you potentially thousands over the life of your loan.

- 2024: \$3,822/mo

An 2.5% cost of living increase for Social Security retirement benefits and SSI payments begins with December 2024 benefits (payable in January 2025).

Increase your Social Security retirement benefits by 5-8% per year when you delay applying until you're age 70.

### Social Security Revenues & Expenditures

Revenue Sources = \$1.35 trillion

- 3.7% - Taxation of benefits
- 5.0% - Interest
- 91.3% - Payroll taxes

Expenditures = \$1.39 trillion

- 0.4% - Railroad Retirement financial interchange
- 0.5% - Administrative expenses
- 99.1% - Benefit payments

*SOURCE: 2024 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table II.B1.*

### 2025 Social Security & Medicare Tax Rates

- Your employer pays **7.65%**
- As an employee, you pay **7.65%**
- If you're self-employed, you pay **15.3%**

*NOTE: The above tax rates are a combination of 6.2% for Social Security and 1.45% for Medicare. There is also a 0.9% Medicare wages surtax for those with wages above \$200,000 single (\$250,000 joint filers) that is not reflected in these figures.*

Item	2025	2024	Change
Maximum earning amount subject to Social Security tax	<b>\$176,100</b>	\$168,600	+\$7,500
Maximum amount you may pay in Social Security taxes (6.2%)	<b>\$10,918</b>	\$10,453	+\$465

- **184+ million** people work and pay Social Security taxes
- Social Security has provided financial protection for Americans **since 1935**

### Social Security Payments Explained

- **Social Security (SS)** retirement benefits are for people who have paid into the Social Security system through taxable income.

- **Make extra payments when possible.** One of the best ways to pay off your student loans faster is by making extra payments. By paying more than the minimum required each month, you'll reduce your principal balance quicker, leading to an overall lower interest expense over the life of the loan. Even small additional payments can make a big difference over time. For example, if you receive a bonus at work, a tax refund, or other cash gift, consider putting part or all of it towards your loan.

*Tip: Consider splitting your monthly payment in half and paying that amount every two weeks. Since there are 52 weeks in a year, this approach will result in 26 half-payments, or 13 full payments instead of 12, effectively making one extra payment each year.*

- **Look into loan forgiveness programs.** Depending on your profession and where you work, you may qualify for loan forgiveness programs. The Public Service Loan Forgiveness program, for example, forgives the remaining balance on federal loans for eligible public service workers after 120 qualifying payments. Other programs, like Teacher Loan Forgiveness and Perkins Loan Cancellation, offer similar benefits for teachers and certain professionals.

*Tip: Research eligibility requirements for these forgiveness programs and stay up-to-date with any changes, as some programs require specific steps to remain eligible.*

- **Take advantage of employer assistance programs.** Many employers now offer student loan repayment assistance as part of their benefits package. This benefit can help you make faster progress on your loans without tapping into your personal budget. Check if your employer offers this benefit, and if they do, take advantage of it to reduce your principal balance faster.

*Tip: If your employer doesn't offer this benefit, ask if it's something they*

- **Social Security Disability (SSD or SSDI)** benefits are for people who have disabilities but have paid into the Social Security the system through taxable income.
- **Supplemental Security Income (SSI)** benefits are for adults and children who have disabilities, plus limited income and resources.

### Maximum SSI Payments

Filing Status	2025	2024	Change
Individual	<b>\$967/mo</b>	\$943/mo	+ \$24
Couple	<b>\$1,450/mo</b>	\$1,415/mo	+ \$35

### How does Social Security work?

- When you work, you pay taxes into Social Security.
- The Social Security Administration uses your tax money to pay benefits to people right now.
- Any unused money goes into Social Security trust funds and is borrowed by the government to pay for other programs.
- Later on when you retire, you receive benefits.

### How to qualify for retirement benefits

When you work and pay Social Security taxes, you earn **credits** toward benefits. The number of credits you need to earn retirement benefits depends on when you were born.

- If you were born in **1929** or later, you need **40 credits** (10 years of work) to receive retirement benefits
- You receive one credit for each **\$1,810** of earnings in **2025**
- **4 credits** maximum per year

### Did you know you can check your benefits status before you retire?

- You can check online by creating a *my* Social Security account on the SSA website. If you don't have an account, you'll be mailed a paper Social Security statement 3 months before your 61st birthday.
- It shows your year-by-year earnings, and estimates of retirement, survivors and disability benefits you and your family may be able to receive now and in the future.
- If it doesn't show earnings from a state or local government employer, contact them. The work may not be covered within Social Security.

Sources: SSA.gov

would consider implementing in the future.

**As always, should you have any questions or concerns regarding your tax situation please feel free to call.**



**Click Here!**

*Copyright © 2018, Couto DeFranco PA. All rights reserved.*  
[https://mailchi.mp/coutodefranco/november-newsletter-17608830?e=\[UNIQID\]](https://mailchi.mp/coutodefranco/november-newsletter-17608830?e=[UNIQID])  
You are receiving this email from Couto DeFranco, P.A.

**Our mailing address is:**  
300 Executive Drive | Suite 200 | West Orange, NJ 07052  
973.325.3370  
<http://www.coutodefranco.com>

Want to change how you receive these emails?  
You can [update your preferences](#) or [unsubscribe from this list](#).