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Tax Newsletter

Reveal the Identity of Securities Sales
Best method for favorable tax results

Suppose you acquired shares of the same stock or mutual fund at various times over the last few years. Due to the recent stock market volatility, you may want to sell some shares to offset earlier gains or losses.

But which shares are you selling? In the normal course of events, the IRS falls back on the "first-in, first-out" (FIFO) method as a default. In other words, the first shares you acquired are treated as the first shares you sold, regardless of the price of the shares. However, you may fare better from a tax perspective by "specifically identifying" other shares as the ones that you sold.

Background: When you sell securities stocks or mutual funds, you generally recognize a gain or loss for tax purposes based on the difference between the sales price and your "basis." Your basis is your initial investment cost plus certain adjustments. The financial institution can provide the necessary information.

- If you realize a gain on a sale and you have owned the securities for more than one year, the maximum tax rate on your long-term gain is only 15% (or 20% for certain high-income investors). Conversely, for securities owned for a year or less, a short-term gain is taxed at ordinary income tax rates. Currently, the maximum tax rate is 37%. In addition, this may also trigger the 3.8% "net investment income tax" (NIIT) for certain investors.

- If you realize a loss on a sale, it can offset capital gains plus up to $3,000 of ordinary income. This can be especially valuable if you previously realized high-taxed short-term gains. Any excess loss is carried over to next year.

The tax treatment can be relatively straightforward if you sell all the shares of a particular stock or mutual fund. However, things get tricky if you own multiple shares of the same security bought at different times. For instance, if the default method is used, it could increase a taxable gain or limit a deductible loss. Fortunately, with the specific ID method, you may decide your own tax fate.

Simplified example: You bought 1,000 shares of mutual fund at $10 a share in January. Then you bought 1,000 more shares of the same mutual fund in February at $20 a share. But the price of the mutual fund has dropped to $12 a share in May.

If you sell 1,000 shares of the mutual fund now, the IRS will assume that the first block of shares you bought is the one you are selling. As a result, you will owe ordinary income tax on your gain of $2,000. However, if you ID the shares you are selling as the second block of shares, you will realize an $8,000 loss.

Reminder: When you arrange the sale, you must notify your broker regarding which shares you are selling. Choose the method that is best for your personal situation. Finally, make sure you obtain a written or electronic confirmation of the transaction.

Section 530 Relief to the Rescue
Safe-harbor rule for payroll taxes

If an employer labels a worker as an independent contractor, rather than an employee, the employer does not have to pay its fair share of federal payroll taxes for the worker, nor does it have to provide costly fringe benefits available to other employees. This can result in significant savings for employers, but such classifications are often challenged by the IRS.

Fortunately, a little-known safe-harbor rule might bail you out. Thanks to Section 530 relief—named for a provision in a decades-old law, not an Internal Revenue Code section— you may be able to avoid any dire tax consequences.

Background: FICA tax, the main federal payroll tax for employers and employees, is comprised of Social Security tax and Medicare tax. For 2025, the Social Security tax portion is 6.2% of first $176,1000 of an employee's wages, while the 1.45% tax for the Medicare tax portion applies to all their wages. Thus, if an employee earns $100,000 a year, the employer's share on just that one employee is $7,650. This could easily run into tens of thousands of dollars—or more—for some small-to-mid sized firms.

Much has been written and spoken about the distinctions between independent contractors and employees, but it essentially boils down to the degree of control the employer exerts over the worker. If the employer dictates how the worker performs the job, they are generally treated as an employee. On the other hand, if the worker is basically operating on their own, they may qualify as an independent contractor.

Section 530 relief may come into play when a business is assessed back taxes and penalties for misclassifying workers as independent contractors. Briefly stated, if the employer can show it meets the Section 530 standards for treating workers as independent contractors, the additional taxes and penalties may be waived.

To qualify for Section 530 relief, your business must meet the following three requirements.

1. Reasonable basis: You must have a reasonable basis for not treating workers as independent contractors. This might be established by one of the following:

- A related court case or IRS ruling.
- A prior IRS audit involving examination of payroll taxes at a time when you treated similar workers as independent contractors and there was no IRS reclassification of these workers.
- A significant segment of your industry treats similar workers as independent contractors.
- You are relying on some other reasonable authority (e.g., the opinion of an attorney or CPA familiar with the business operation).

2. Employment status consistency: In the past, the employer has always, without exception, treated these workers and any similar workers as independent contractors.

3. Reporting consistency: At all times, you have consistently filed all federal tax returns treating the workers as independent contractors. For instance, your business must have provided workers with Form 1099s. If you had W-2s prepared for some of the workers in the group, your claim will be denied.

Be aware that your *all* three requirements must be met. Otherwise, this last-ditch effort for obtaining relief is not available.

Practical advice: Do not take any chances on a costly misclassification. Consult with your professional tax advisors concerning borderline cases.

Welcome Five Tax Bundles of Joy
Timely tax breaks for new parents

Congratulations! There is a new addition to the family. To make the occasion even sweeter, the tax law provides several tax benefits to parents, including the following five tax-saving opportunities for 2025.

1. Child Tax Credit: The Child Tax Credit (CTC) is a partially refundable tax credit available to parents with dependent children under age 17. A baby born before the end of the year qualifies for the full credit. For 2025, the CTC is $2,000 per qualifying child if modified adjusted gross income (MAGI) is $200,000 or less for single filers or $400,000 for joint filers. But the credit begins to phase out above those levels. Currently, the maximum refundable portion is $1,700.

2. Dependent care credit: The dependent care credit can be claimed for costs of caring for under-age-13 children, including newborns, while you (and your spouse, if married) work or search for work. The credit for parents with an adjusted gross income (AGI) above $43,000 is 20% for the first $3,000 of qualified expenses for one child or $6,000 for two or more children. Thus, the maximum credit is $600 or $1,200, respectively.

3. Adoption expense credit: For 2025, parents can claim a maximum credit of $17,280 for qualified expenses incurred to adopt an eligible child. An eligible child is one who is under age 18 or physically or mentally incapable of self-care. The credit phases out for taxpayers with a modified adjusted gross (MAGI) above $259,190. Once your MAGI exceeds this level, the credit is reduced until it hits zero at $299,190. Other special rules may come into play.

4. Section 529 plans: As soon as your child is born, you can set up a Section 529 plan for the infant. The contributions, usually subject to generous state limits, are invested and can grow within the account on a tax-deferred basis. There is no tax due until distributions are made in the future. And, if the money is used to pay for qualified expenses like tuition, those withdrawals are exempt from tax.

5. Dependent care assistance programs: Eligible employees may use a version of a flexible spending account (FSA), the dependent care assistance FSA, to pay for childcare costs. Like a health expense FSA, amounts are withheld from employee wages on a pre-tax basis. Then withdrawals made for qualified expenses are exempt from tax. The maximum deferral for a dependent care FSA is $5,000. (This is not indexed for inflation.)

These are just five possible tax-savers for new parents. Down the road, you may qualify for other family-based tax breaks, including higher education credits and deductions for student loan interest. Try to maximize the tax benefits of raising a family with assistance from your professional tax advisors.

Tax Rewards at Charitable Conventions

Are you planning to attend a charitable convention at a distant location this summer? You may be in line for a big tax deduction.

Basic rules: If you incur unreimbursed expenses on behalf of a charity, the costs are deductible if you itemize on your return. This includes airfare, lodging, meals, local transportation and other incidentals at a charitable convention. To qualify, you must officially be designated as a representative of the charity.

It is OK to mix in a little recreation or sightseeing at or near the convention site. But expenses attributable to these activities are nondeductible personal expenses.

Facts and Figures
Timely points of particular interest

Forming Alliances—Countries are not the only entities that can make strategic alliances. One possible way of growing your business in 2025 is to form a business alliance with others. This is a formal business arrangement between two or more organizations to achieve shared business objectives. For instance, an alliance may include various joint ventures, franchising, cross-licensing and cross-marketing activities. There are numerous pros and cons to consider, so obtain expert advice.

Foreign Intrigue—The filing deadline for 2024 federal income tax returns—April 15, 2025—has passed for most U. S. taxpayers. But the IRS is reminding taxpayers living and working abroad that a special tax filing deadline is approaching. Both U.S. citizens and resident aliens abroad have until June 16, 2025, to file their 2024 returns. (The usual due date of June 15 falls on a Sunday.) As with other taxpayers, you may obtain an automatic filing extension of six months, but this is an extension to file—not to pay tax.

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