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MARCH 2024

LIFE INSURANCE REVISITED

An article in the enclosed Tax & Business Alert asks "Have you recently reviewed your life insurance needs?" We agree that one's life insurance coverage should be considered periodically. We have written here occasionally about life insurance and most recently in May 2016. This might be a good time to again mention some of our thoughts on life insurance.

The purpose of life insurance is to provide economic protection against premature death and the resulting financial loss to the beneficiaries. Life insurance is not an investment or retirement plan, although there are many insurance products marketed as such.

How Much to Buy? – Generally, enough life insurance should be purchased so that, when the death benefit is added to other investment assets, the total available investment assets will produce 80 percent of the insured's present net-of-tax earned income. A young person without significant investment assets and in doubt about the appropriate amount of insurance should probably "over insure," since their cost of term life insurance is generally very low and the status of future insurability could become uncertain.

Term or Cash Value? – Annual renewable term life insurance guaranteed to age 65 is available and is "pure insurance." In contrast, a cash value life insurance policy (e.g., whole life, universal life, variable life, etc.) is a financial product that combines life insurance with an investment feature at a high cost to the buyer in commissions and fees. An independent analysis of insurance cost and investment return will show that separately buying low-cost term life insurance and tax-efficient low-cost investments is superior to buying cash value life insurance.

The Goal of Financial Security – Finally, if one is fortunate enough to accumulate savings and investments through a lifetime of work and good decisions adequate to provide for the future financial needs of those depending on it, life insurance is no longer needed.

We would be pleased to discuss any questions you may have.

SEASONAL REMINDERS

IRA and HSA Contributions – April 15, 2024. Taxpayers making individual retirement account (Roth IRA and traditional IRA) or health savings account (HSA) contributions for 2023, and who have not already done so, will need to make the contributions on or before April 15, 2024. That is the last available date for a 2023 contribution even if the taxpayer obtains an extension of time to file the 2023 individual income tax return.

The maximum contribution to an IRA (Roth or traditional) for 2023 is $6,500 for those below age 50 and $7,500 for those age 50 or above at December 31, 2023. To increase the benefits of

(*Continued on reverse*)

long-term compounding, we encourage early contributions to tax-deferred accounts for those reasonably certain of their eligibility. For 2024, the maximum IRA contributions are $7,000 for those below age 50 and $8,000 for those age 50 or above at December 31, 2024.

The maximum HSA contribution for a single person for 2023 is $3,850 and for a family is $7,750. Those 55 or older can add, for 2023, an additional $1,000. For 2024, the maximum for a single person increases $300 to $4,150, and for a family, the maximum is $8,300. For those 55 and over, the 2024 additional amount remains the same as 2023 at $1,000 for both single and family.

Tax Return Data – Soon. Taxpayers will benefit from, and tax preparers will appreciate, receiving complete (or nearly complete) individual income tax data as early as possible. Early receipt of all data (or all but a missing Schedule K-1, etc.) allows time for more thoughtful preparation and diminishes the hazards of the rush to completion of the last days of the filing season. Many taxpayers with complex returns, brokerage accounts with histories of corrected information forms, late K-1s, etc. will be well served by an extension of time to file until October 15, 2024. Extensions of time to file do not, in our experience, prejudice the return in any way. An extension, however, does not extend the time to pay. Accordingly, early submission of the data will be helpful for computation of the estimated amount to be paid, if any, with the automatic extension and for consideration of 2024 estimated tax. For most individual income tax returns, the furnishing of all or almost all of the data by early-March will allow the orderly preparation of a well-considered return. In instances where little data is available by early-March and for most complex returns, automatic extensions are often the best choice.

NAG

Just as many, if not most, horses resent a spur, many of us resent "nagging" about something we need or what someone thinks we might need to do. Nevertheless, we are again mentioning the "new for 2024" FinCEN ownership reporting requirements.

Most passthrough entities (LLCs, Partnerships, S Corporations, etc.) subject to FinCEN requirements have until December 31, 2024 to file their initial report. However, entities created in 2024 have 90 days following creation to report. Accordingly, LLCs formed in 2024 can have due dates for reporting as early as April 1, 2024. More information about these new FinCEN responsibilities are contained in our January 2024 and our July and November 2023 newsletters – all of which are available on our website at *www.cepcpa.com/our-newsletters*. We continue to study the FinCEN rules on beneficial ownership reporting and anticipate being available to help with such filings by mid-summer of this year.

The decision as to whether or not a filing is required is complex as there are 23 exemptions. The exemption for entities with more than 20 employees, with an office in the U.S., and with revenues of more than $5 million, appears to be one of the least complicated. Nevertheless, the question of exemption is a legal one. Accordingly, if you need help determining exemption status, you should consult your attorney. If you or your attorney determine that a report is required and you desire help in filing, we will be pleased to assist you.

Perhaps, the Treasury will come to understand that they already have names, addresses, and taxpayer identification numbers on all tax compliant business and entity owners as part of Forms 1040, 1065, 1120, 1120S, Forms 1041, etc., and a second compilation of this same data is onerous. Hopefully, some mitigation of the filing burden will occur.