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# Financial Briefs

JUNE 2025

## Tax Planning for Life's Major Events

As you go through life, the one thing you can count on is that Uncle Sam will always be with you. The following provides an overview of what you can expect regarding taxes as you hit the many milestones of your life.

**First Job**

The first thing you will need to do is determine how much to withhold from your pay. If you withhold too much, you will get a refund when you file your taxes, but it may be better for your situation to have your money throughout the year. On the flip side, if you don't withhold enough, you may have a large tax bill and may also incur penalties for not withholding enough throughout the year.

Make sure you take advantage of any tax breaks your employer offers. If your employer offers health care coverage, that insurance may be a tax-free benefit to you. You may also have access to a flexible spending account (FSA), which allows you to save pretax dollars to pay for medical expenses. If your employer offers a tax-deferred retirement plan, take full advantage of it because you are investing with pretax money. If your employer matches your contributions, that is free money to you.

**Getting Married**

Typically, there are more advantages for married couples who file jointly, but you will want to do a thorough assessment of your newly combined income. You should reevaluate how much to withhold from both of your paychecks.

If both you and your spouse participate in an employer-sponsored retirement plan, you should carefully review and decide which plan offers the best benefits. The ideal situation would be to participate to the maximum in both plans, but if your cash flow won't allow that for a period of time, then determine which plan is the best.

You can also make changes to FSA accounts to accommodate both of your medical expenses.

**Having a Baby**

A new baby comes with some tax benefits to help growing families. You will be able to claim your little one as an exemption in the year they are born until they are 19. If your child attends college, they may be claimed until they turn 24.

You may also be able to get a child tax credit for each child under the age of 17. The intent of the credit is to help families offset the cost of raising children. If you have a large family, you might be able to get money back from the IRS via the additional refundable child-tax credit. There is also a tax credit to cover some of the costs associated with adopting a child.

If you and your spouse work, parents can use the child- and dependent-care credit to pay for some of the costs of caring for their children while they are at work.

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## Where Should You Hold Investments?

How earnings are taxed on investments depends on whether the investments are held in a taxable or tax-deferred retirement account.

Earnings in tax-deferred retirement vehicles, such as 401(k) plans and traditional individual retirement accounts (IRAs), grow tax deferred until withdrawn. When the funds are withdrawn, all income is taxed at ordinary income tax rates, even income attributable to long-term capital gains and dividend income.

In taxable accounts, the long-term capital gains tax rate is 15% to 20% (0% for taxpayers under certain income limits), while short-term capital gains are taxed at ordinary income tax rates (10%, 12%, 22%, 24%, 32%, 35%, or 37%). Dividend income received by individual taxpayers from a domestic or qualified foreign

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## Tax Planning

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If you are planning to send your children to college, the tax code also offers several ways to save and help pay for higher education costs, including 529 college savings plans and the Coverdell Education Savings Account.

**Starting a Business**

If you want to strike out on your own, make sure you review the tax code prior to starting your business. New businesses can deduct thousands of dollars in certain startup costs. As a sole proprietor, you will report your income as part of your annual individual tax filing by including Schedule C with your 1040. The schedule also offers opportunities to deduct business expenses, including setting up a home office, business use of a vehicle, health insurance premiums, and contributions to self-employed retirement plans. Typically, sole proprietors also make estimated tax payments four times per year.

As a sole proprietor, you will be responsible for paying self-employment taxes, which are comparable to the payroll taxes collected from wage-earning employees. And, as both the employer and employee, you will have to pay Social Security and Medicare taxes.

**Buying a Home**

There are many tax breaks for owning a home. The interest you pay on your mortgage is deductible as an itemized expense up to $750,000 ($1,000,000 if the home was purchased before December 16, 2017), and interest paid on a home equity loan or line of credit up to $100,000 is deductible. There are also some home improvements that provide energy efficiency that will get you a tax credit to help offset the cost of these improvements.

When you sell your home, up to $250,000 in sales gain ($500,000 for married joint filers) on your home is tax free. You are required, however, to have owned the property for two years and lived in it for two of the five years before the sale.

## Planning Year Round

Many people confuse tax planning with tax preparation and only think about the subject when preparing their annual tax return. However, there is little you can do to actually lower your tax bill when preparing your return. If your goal is to reduce income taxes, you need to be aware of tax planning opportunities throughout the year.

Take time early in the year, perhaps as part of the tax preparation process, to assess your tax situation, looking for ways to reduce your tax bill. Consider a host of items, such as the types of debt you owe, how you're saving for retirement and college, which investments you own, and what tax-deductible expenses you incur. It often helps to discuss these items with a professional who can review strategies you might not have considered.

During the year, consider the tax consequences before making important financial decisions. This will prevent you from finding out later that there may have been a better way to handle the transaction for tax purposes.

Look at your tax situation again in the fall, which gives you plenty of time before year-end to implement any additional tax planning strategies. At that point, you'll also have a better idea of your expected income and expenses for the year. You may then want to use strategies you hadn't considered earlier in the year, such as selling investments at a loss to offset capital gains.

**Divorce**

There is nothing easy about a divorce and that includes the tax implications. Your filing status is determined on the last day of the tax year, so if your divorce is final on December 31, you are considered unmarried for the entire year.

Determining child custody is probably the most difficult part of divorce. From a tax perspective, the parent who has physical custody of the children for most of the year gets to claim them as dependents and also gets the child-tax credit and child-care tax credit savings. If there are multiple children and your custody time is relatively equal, you can also decide who gets to claim which child.

It may make the most sense for couples to sell their marital home prior to the divorce so they can split the tax-free profits. If one spouse is granted sole ownership of the family home, when they go to sell the property, the amount of profit exempt from capital gains is just $250,000 versus the $500,000 that married filing jointly homeowners can exclude.

When dividing other marital assets, both spouses should take into account the cash the recipient partners will net after taxes. Alimony is considered taxable income to the recipient and is a deduction for the spouse that is paying. Child support does not create any taxable event.

**Retiring**

Hopefully, you planned well for your golden years by taking advantage of the many tax breaks afforded by your retirement plan. While you will have to pay tax on the distributions from the account, remember all the years you were able to invest on a pretax basis.

If you have a Roth IRA, you deposit post-taxed money, but you can now take distributions that are tax free. The biggest drawback to a Roth IRA is that there are income limitations. However, regardless of your income, you can convert a traditional IRA to a Roth IRA.

Social Security benefits generally are tax free as long as you don't have a lot of other income. You will have to pay on portions of your benefit if you earn more than $25,000 as a single filer and $32,000 if married and filing jointly.

Please call if you'd like to discuss tax planning in more detail.

## Where Should?

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corporation is also taxed at the same rate as long-term capital gains.

Thus, the difference between the maximum ordinary income tax rate (37%) and the rate on long-term capital gains and dividend income (15% to 20%) is 17% to 22%. This is a significant difference that could impact your decisions regarding how to invest your savings. Thus, consider the following strategies:

- Stocks that generate dividend income may best be held in taxable accounts. While you will have to pay income taxes as the dividend income is received, you will only pay tax of 15% to 20%. If the stocks are held in a tax-deferred account, you will pay ordinary income taxes on the dividend income when withdrawn.
- Consider holding growth stocks in your taxable account. Again, any long-term capital gains are taxed at 15% to 20%. If the stocks are held in a tax-deferred account, ordinary income taxes will be paid on the long-term gains when the funds are withdrawn. However, if your holding period is long enough, the deferral of taxes over many years may more than offset the higher tax rate.
- Investments generating ordinary income, such as bonds, should be considered for your tax-deferred account. Since ordinary income taxes will be paid whether the investment is held in a taxable or tax-deferred account, you delay the payment of those taxes by holding the investment in a tax-deferred account.
- The lower income tax rates for long-term capital gains and dividend income will reduce your tax bill in your taxable account, but you shouldn't quit contributing to your 401(k) plan or traditional deductible IRA. Contributions to those accounts are made from pre-tax dollars. Money invested in a taxable account is made with after-tax funds, so you'll only be investing 65 or 75 cents instead of the dollar that would be going into your 401(k) plan or IRA. That difference makes a tax-deferred account tough to beat over the long term.

Please call if you'd like to review strategies for investing.

## Learning Income Tax Basics

Very few people like to think about income taxes. It's little wonder why — they represent a significant, often resented expense for most taxpayers. But that lack of consideration often leads to a lack of understanding, even when it comes to the most basic aspects of income tax. This is unfortunate, because once you start to understand it better, the more you see you have more control over how much you pay in taxes each year than you realize.

Much of your control depends on the type of strategy you use. For instance, contributing to your company's 401(k) plan or an IRA will reduce your current year income taxes. Familiarizing yourself with federal and local deductions and credits, then planning accordingly, can save you thousands come tax season. If you discuss your tax situation with a professional, he/she can help you find any areas in which you are missing out on potential savings. This is especially recommended when the tax code has undergone recent and significant changes.

Sometimes your tax strategy can boil down to smart timing. When it comes to major financial transactions, like selling a home or investment, your tax bill is largely affected by the circumstance. For instance, if you purchased a home and lived in it for less than two of the last five years, you will have to pay capital gains tax on your profits from the sale. There are exceptions, mostly for members of the armed forces who may be deployed or assigned elsewhere, but for most people, this tax can be avoided if you stay in the house for a full two years. Knowing this beforehand and planning out life changes in advance (as much as possible) can help you plan out and time these transactions wisely.

Companies keep meticulous records for tax purposes, devoting filing cabinet after filing cabinet to the storage and organization of receipts and documents that support anything they wish to claim to put the company in a better situation. If only every individual person did this as well. Maintaining good tax records, even if you're unsure of how helpful it will be when you're filing your taxes, is not only essential when it comes to backing up your claims, but also reminds you of what resources you've expended over the past year. Not everything is deductible, but the more records you keep, the better prepared you are to claim and support deductions and thus lower the amount of tax you owe.

While preparing for your taxes by having a sound strategy and smart timing is a great way to save money and make wiser choices, it is important to remember that the decisions you make in life should not be made solely for tax reasons. Of course, you want to minimize the amount you have to pay in income taxes, but any transaction has to be ultimately beneficial for you and your family. For instance, if you've lived in your house for fewer than two years, but you or your spouse receives a job offer out of state, you will have to decide if keeping your family together (and not balancing two mortgages) is a better option than just paying the capital gains tax rates on the profit of your house sale. Just because one situation is better for your tax bill doesn't mean it is better for you — but understanding the true tax ramifications of your transactions will help you make more informed decisions for your circumstances.

# News and Announcements

### From The Bolander Household

Between the spring rains, our granddaughter Stella who is now 14 has tried her hand at mowing our lawn to earn spending money for the summer. John started her with the area that we use the push mower on. She did well with her first attempt, only missing a couple of small strips, and I was proud that she stuck with it until it was finished. In the process, we both learned a few things about the push mower because John has spoiled me by only handing over the riding mower to me after he has it ready to go. In the next week or two, he plans to show her how to use the electric trimmer which will add a few more dollars for her efforts. Later this year he may add some time for her on the riding mower, if she's up to it.

Thank you to all who have asked about our son Jake's wedding. We had so much rain in April this year that holding the event outdoors looked doubtful. After two days of drenching rain, it was gray, misty and blustery on the big day until about an hour before the ceremony. Then, wonderfully the clouds parted, and the guests arrived in the warmth of the sunshine. It was a beautiful ceremony and Jake and Haleigh were blessed with the wedding they wanted!

Have a great summer!

*Brenda C. Bolander, CFP®*
*CPA/PFS™*
*Executive Vice President*

### From the Rudy Household

Our youngest daughter, Tatum, is now a high school graduate, and we find ourselves reflecting on her remarkable senior year.

While not all high school seniors appreciate the activities and traditions associated with graduation, Tatum embraced it all. Events started back in August with Senior Sunrise, where the Class of 2025 gathered to watch the sun rise on their senior year. She took part in Senior Bonfire, Senior Six Flags Day, and Field Day. One of her favorite events was Powder Puff, a flag football game of senior girls vs. junior girls with the boys participating as coaches and cheerleaders. She attended end of year banquets, pep rallies, prom, & baccalaureate. She visited her former elementary and middle schools to walk the halls one last time. Along with all of these school-organized activities, she was able to find time on the calendar for her own graduation party to celebrate her accomplishments with friends and family.

Amy and I are so proud of Tatum and we're glad she enjoyed all that was offered to her during her senior year. When she starts college at the University of Oklahoma, we hope she brings with her the same enthusiasm that made her senior year so memorable. We can't wait to see all that she will achieve.

*Chad A. Rudy, CFP®, RSSA®*
*Executive Vice President - TX*

### From the Peralta Household

"To give anything less than your best is to sacrifice the gift." – Steve Prefontaine

At the beginning of the year, I set a goal to challenge myself and create a memory I'd never forget. Running the OKC Memorial Marathon delivered on both.

It was brutal, no sugarcoating it. But that quote from Steve kept looping in my head every time I wanted to stop. Around mile 18, my legs were shot, and I seriously considered walking as I hit the infamous "wall." But the idea of finishing and wondering if I could've gone harder bothered me more than the pain I was temporarily feeling. So, I broke it down to, "just one more mile." Then again. And again. Eventually, "one more" turned into "one last."

Crossing the finish line wasn't some magical moment. As soon as I stopped, my legs and knees reminded me of exactly what I'd just put them through. But crossing the finish line did reinforce that we can go further than we initially thought.

That being said, a friend of mine recently invited me on a Rim to Rim to Rim (R2R2R) Grand Canyon hike. Wish me luck as I start preparing for my next adventure.

*Alexx V. Peralta, CFP®*
*Financial Advisor*

**Retirement Investment Advisors, Inc.**
**Holiday Hours**

*Juneteenth*
Thursday, June 19, 2025 – Closed

*Independence Day*
Friday, July 4, 2025 – Closed