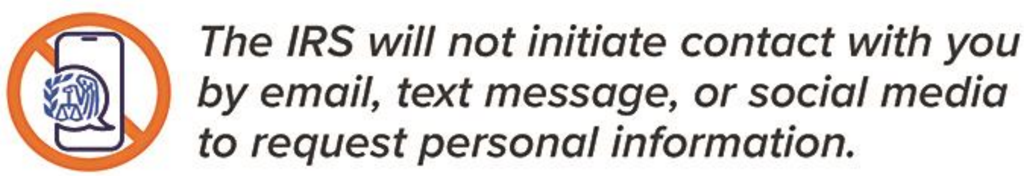
Keep an Eye Out for IRS-Related Scams

The IRS warns that although scams are especially prevalent during tax season, they also take place throughout the year.[1] As a result, it's important to always be on the lookout for suspicious activity so that you don't end up becoming the victim of a scam.

One of the more common IRS scams involves phishing emails. These scams involve unsolicited emails that pose as the IRS to convince you to provide personal information. Scam artists then use this information to commit identity or financial theft. Another dangerous type of phishing, referred to as "spear phishing," is targeted towards specific individuals or groups within a company or organization. Spear phishing emails are designed to get you to click on a link or download an attachment that will install malware in order to disrupt critical operations within your company or organization.

Another popular IRS scam involves fraudulent communications that appear to be from the IRS or a law enforcement organization. These scams are designed to trick you into divulging your personal information by using scare tactics such as threatening you with arrest or license revocation. Be wary of any email, phone, social media, and text communications from individuals claiming they are from the IRS or law enforcement saying that you owe money to the IRS.



A relatively new IRS scam involves text messages that ask you to click on a link in order to claim a tax rebate or some other type of tax refund. Scammers who send these messages are trying to get you to give up your personal information and/or install malware on your phone. Watch out for texts that appear to be from the IRS that mention "tax rebate" or "refund payment."

The IRS will not initiate contact with you by email, text message, or social media to request personal information. The IRS usually contacts you by regular mail delivered by the U.S. Postal Service. Here are some steps that may help you avoid scams.

- Never share your personal or financial information via email, text message, or over the phone.
- Don't click on suspicious or unfamiliar links or attachments in emails, text messages, or instant messaging services.
- Keep your devices and security software up to date, maintain strong passwords, and use multi-factor authentication.

1) Internal Revenue Service, 2022

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Key Retirement and Tax Numbers for 2023

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2023.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2023 is $17,000, up from $16,000 in 2022.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2023 is $12,920,000, up from $12,060,000 in 2022.

Standard Deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2023, the standard deduction is:

- $13,850 (up from $12,950 in 2022) for single filers or married individuals filing separate returns
- $27,700 (up from $25,900 in 2022) for married joint filers
- $20,800 (up from $19,400 in 2022) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2023 is:

- $1,850 (up from $1,750 in 2022) for single filers and heads of household
- $1,500 (up from $1,400 in 2022) for all other filing statuses

Special rules apply for those who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,500 in 2023 (up from $6,000 in 2022), with individuals age 50 or older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges (see chart). For individuals who are active participants in an employer-sponsored retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges (see chart). The limit on non-deductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to a Roth IRA

	2022	2023
Single/Head of household	$129,000–$144,000	$138,000–$153,000
Married filing jointly	$204,000–$214,000	$218,000–$228,000
Married filing separately	$0–$10,000	$0–$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2022	2023
Single/Head of household	$68,000–$78,000	$73,000–$83,000
Married filing jointly	$109,000–$129,000	$116,000–$136,000

Note: The 2023 phaseout range is $218,000-$228,000 (up from $204,000-$214,000 in 2022) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0-$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.

Employer-Sponsored Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $22,500 in compensation in 2023 (up from $20,500 in 2022); employees age 50 or older can defer up to an additional $7,500 in 2023 (up from $6,500 in 2022).
- Employees participating in a SIMPLE retirement plan can defer up to $15,500 in 2023 (up from $14,000 in 2022), and employees age 50 or older can defer up to an additional $3,500 in 2023 (up from $3,000 in 2022).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,500 in 2023 (up from $2,300 in 2022) is taxed using the parents' tax rates.

When Should Young Adults Start Investing for Retirement?

As young adults embark on their first real job, get married, or start a family, retirement might be the last thing on their minds. Even so, they might want to make it a financial priority. In preparing for retirement, the best time to start investing is now — for two key reasons: compounding and tax management.

Power of Compound Returns

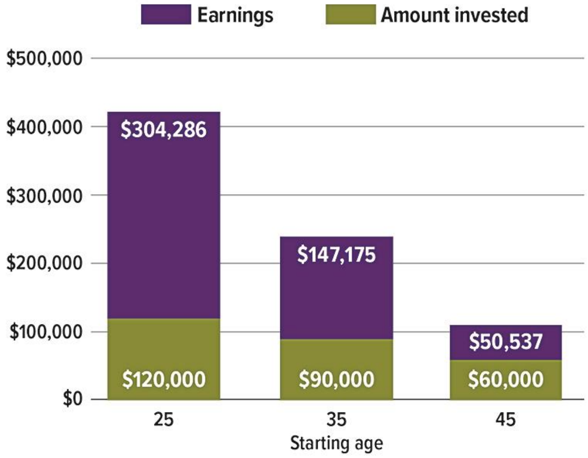
A quick Internet search reveals that Albert Einstein once called compounding "the most powerful force in the universe," "the eighth wonder of the world," or "the greatest invention in human history." Although the validity of these quotes is debatable, Einstein would not have been far off in his assessments.

Compounding happens when returns earned on investments are reinvested in the account and earn returns themselves. Over time, the process can gain significant momentum.

For example, say an investor put $1,000 in an investment that earns 5%, or $50, in year one, which gets reinvested, bringing the total to $1,050. In year two, that money earns another 5%, or $52.50, resulting in a total of $1,102.50. Year three brings another 5%, or $55.13, totaling $1,157.63. Each year, the earnings grow a little bit more.

Over the long term, the results can snowball. Consider the examples in the accompanying chart.

This chart illustrates how much an investor could accumulate by age 65 by investing $3,000 a year starting at age 25, 35, and 45 and earning a 6% annual rate of return, compounded annually.



These hypothetical examples of mathematical compounding are used for illustrative purposes only and do not reflect the performance of any specific investments. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Rates of return will vary over time, particularly for long-term investments. Investments offering the potential for higher rates of return also involve a higher degree of investment risk. Actual results will vary.

Tax Management

Another reason to start investing for retirement now is to benefit from tax-advantaged workplace retirement plans and IRAs.

- **Lower taxes now.** Contributions to traditional 401(k)s and similar plans are deducted from a paycheck before taxes, so contributing can result in a lower current tax bill. And depending on a taxpayer's income, filing status, and coverage by a workplace plan, contributions to a traditional IRA may result in an income tax deduction.
- **Tax-deferred compounding.** IRAs and workplace plans like 401(k)s compound on a tax-deferred basis, which means investors don't have to pay taxes on contributions and earnings until they withdraw the money. This helps drive compounding potential through the years.
- **Future tax-free income.** Roth contributions to both workplace accounts and IRAs offer no immediate tax benefit, but earnings grow on a tax-deferred basis, and qualified distributions are tax-free. A qualified distribution is one made after the Roth account has been held for five years and the account holder reaches age 59½, dies, or becomes disabled.
- **Saver's Credit.** In 2022, single taxpayers with adjusted gross incomes of up to $34,000 ($66,000 if married filing jointly) may qualify for an income tax credit of up to $1,000 ($2,000 for married couples) for eligible retirement account contributions. Unlike a deduction — which helps reduce the amount of income subject to taxes — a credit is applied directly to the amount of taxes owed.
- **Avoiding penalties.** Keep in mind that withdrawals from pre-tax retirement accounts prior to age 59½ and nonqualified withdrawals from Roth accounts are subject to a 10% penalty on top of regular income tax.

Additional Fuel for the Fire

Workplace plans that offer employer matching or profit-sharing contributions can further fuel the tax-advantaged compounding potential. Investors would be wise to consider taking full advantage of employer matching contributions, if offered.

Don't Delay

With the power of compounding and the many tax advantages, it may make sense to make retirement investing a high priority at any age.

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IRS Audit Rates Over Time

IRS audit rates for individual income tax returns have fallen since 2010, but this pattern could reverse as the agency ramps up enforcement. The Inflation Reduction Act of 2022 provided the IRS with an influx of about $80 billion to modernize outdated technology and rebuild a depleted workforce.

Total positive income ranges*	Tax year 2010	Tax year 2019
No total positive income	20.6%	1.1%
$1 – $25,000	1.0%	0.4%
$25,000 – $50,000	0.6%	0.2%
$50,000 – $100,000	0.7%	0.2%
$100,000 – $200,000	0.8%	0.2%
$200,000 – $500,000	2.3%	0.2%
$500,000 – $1 million	3.6%	0.6%
$1 million – $5 million	8.2%	1.3%
$5 million – $10 million	13.5%	2.0%
$10 million or more	21.5%	8.7%

*Total positive income excludes losses

Source: Internal Revenue Service, 2022