

TaxBrief

Keeping you informed **Fall 2023**

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As we head into the Fall of 2023, it's time for a some tax news and tips you can take action on. In this newsletter we have an array of topics we hope will be useful to our first-time filers as well as our long-time filers. Feel free to reach out to us for more information on any of the items you believe may affect you.



Paycheck Check-up

To avoid surprise tax bills, we urge you to periodically check how much income tax you're having withheld. The tool walks you through entering the information required. If your tax preparer told you to check the Withholding Estimator, but you haven't done it, now is the time.

Use this tool if:

- You have a major life change
- You get a new job or other paid work
- You have a major income change
- Your marital status changes
- You add a child to your family
- You purchase a home

Do not use this tool if:

- You have a pension but not a job. Instead, use the new Form W-4P.
- You have nonresident alien status. Instead, use Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens.
- Your tax situation is complex. Examples are if you have alternative minimum tax, long-term capital gains or qualified dividends.

For Federal withholding:

Link to the tool: [IRS Withholding Estimator](#)

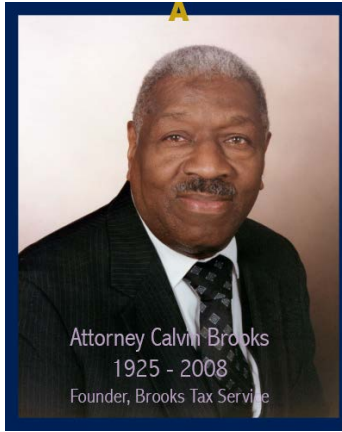
For State withholding:

1. Open your web browser & search for "state payroll withholding calculator your state". For example: state payroll withholding calculator California.
2. If your state does not have a calculator, taxpayers can use [taxformcalculator.com](#) or [smartasset.com](#).

Security of Your Tax Return Copies

Whether you keep your tax return copies as paper or electronically, please store them in a secure manner.

Please do not store your tax returns on the hard drive of your computer. Store them on an external hard drive or USB stick that is only connected to your computer when you need to access or store your tax returns. This is because your tax returns have so much vital personal and financial information on them that an identity thief would have everything they need, to bleed you dry and open numerous fraudulent accounts in your name as well as filing fake tax returns, preventing you from filing future tax returns.



Brooks Tax Service Price Changes

At Brooks Tax Service (BTS) our firm motto is Keeping the Promise. That is the promise our founder, Calvin Brooks, operated by: To serve our clients to the best of our ability while charging the most reasonable rates we can. We continue to serve you in his stead.

However, from time to time, we do have to re-evaluate and adjust some of our rates. Changes in the processing complexity of certain tax returns, the overhead required to meet the Internal Revenue Service (IRS) data security mandates, cost of annual IRS mandated training, postal fees, and inflation are all considered when calculating our rates. Next year, the 2023 tax year, the following rates will change:

Service	New Rate
Single Senior	\$185.00
Amended Tax Returns for New Clients	
Head of Household	\$199.00
Married Filing Joint	\$229.00
Married Filing Separate	\$199.00
Estate Tax Returns	
Small Estate (Value = \$0-\$49k)	\$500.00
Medium Estate (Value \$50k - \$200k)	\$600.00
Large Estate (Value above \$200k)	\$1,250.00
Investment Transactions	
0-50 transactions	0
51+ transactions	\$100/per batch of 50

Why You Need an IP PIN

Over the last few years, the Internal Revenue Service (IRS) began urging all taxpayers to get an Identity Protection PIN (IP PIN) to protect their IRS account and refunds from Identity Theft Fraud. An IP PIN is a 6-digit number issued by the IRS to you, the taxpayer. A new IP PIN is issued each tax year. Once issued, it must be used to file your federal tax return each year and to access your account online.

Why You Need an IP PIN (cont'd)

Tax-related identity theft fraud usually occurs when someone with access to your Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN) uses that information to file a fraudulent tax return in your name and collect a refund. However, if you have an IP PIN, the thief will not have that information to submit with the return. The IRS will reject the return, and your account will not be compromised.

Brooks Tax Service recommends that all clients get an IP PIN to secure their account. To get an IP PIN go to www.irs.gov/ippin.

eSigners: Remember to download your tax copy

The IRS requires all taxpayers to keep copies of your tax returns for 7 years after submission. If you electronically sign (eSign) your tax returns, please remember to download your copy of the tax return in a secure location. Once both the client(s) and the tax preparer have eSigned the tax return, the client receives an email with a copy of the completed return. For security reasons, access to this copy expires soon after the signatures are completed, so be sure to download your copy upon receiving the confirmation email.

If you fail to download your copy, you may send us a request for a copy via email to support@brookstaxservice.org. However, you may be charged a fee for this service.



How the IRS Calculates Interest

You owe the IRS a balance on your taxes. You may think “I’ll pay them later”. Let me show why that is a **VERY** bad idea.

The IRS charges different types of **penalties** depending on the situation, such as failure to file, failure to pay, accuracy-related, etc. The total penalty for both failure to file and failure to pay will not exceed 25% of the unpaid tax owed.

If you file your taxes after the deadline, you are subject to pay penalties and interest on the amount you owe. The penalty is usually 5% of your unpaid taxes for each month or part of a month that you are late, up to a maximum of 25%. The **interest** is calculated based on the federal short-term interest rate plus 3% and **compounds daily**. That's the killer. This compounding means that the interest is added to your unpaid balance every day, and then the next day's interest is calculated on the new balance.

An example to show how quickly what you owe increases, Suppose you owe **\$10,000** in taxes and file three months late. The late penalty rate is 5% x \$10,000 x 3 = \$1,500. Currently, the applicable IRS interest rate plus the federal short-term rate is 7% as of the 3Q23.

The interest on the tax due and the late penalty is calculated as follows:

Day 1: $\$10,000 \times .07 / 365 = \1.91

Day 2: $(\$10,000 + \$1.91) \times (0.07) / 365 = \1.91

Day 3: $(\$10,000 + \$1.91 + \$1.91) \times (0.07) / 365 = \1.92

...

Day 90: $(\$10,000 + \$267.91) \times (0.07) / 365 = \1.97

The total interest for 90 days would be the sum of all the daily interest amounts, which is about \$267.91. Therefore, in 3 months your total amount due would be:

Amount owed +Late penalty +Interest =
 $\$10,000 + \$1,500 + \$267.91 = \mathbf{\$11,767.91}$.

Because the interest increases the balance you owe to the IRS, paying your taxes as soon as possible is essential. The longer you wait, the more interest you will have to pay.

Manage Your Gig Economy Income

Many taxpayers engage in work that is classified by the IRS as Gig Economy Income. Also known as sharing economy or access economy, this is income from on-demand work, services, or goods, usually utilizing an online platform, app, or website. Examples include driving for Uber, Amazon delivery, and selling creative products online. This income is taxable, though you may not receive a tax form such as a 1099-K, or 1099-MISC form. It is reportable whether it is part-time or temporary work, paid in cash, property, goods, or virtual currency. The IRS rules mandating companies such as Zelle and Venmo to report income paid via their platforms, are aimed at capturing the income tax due on gig economy income.

It is incumbent upon the Gig-worker to keep good records of all income and expenses. Because Gig-workers do not have an employer to withhold taxes from their income, they must do it themselves. Often, Gig-workers manage their taxes by utilizing the Tax Withholding Estimator to make quarterly estimated tax payments throughout the year. IRS information about Gig Economy work can be found at Gig Economy Tax Center. If you engage in Gig Economy work, speak with your tax preparer to ensure you are keeping good records and managing your withholding correctly to avoid owing a large payment to the IRS at tax time.

Business Corner: Solo 401(k) Plans

If you are self-employed, you must provide retirement benefits for yourself. If you are a sole proprietor with no employees, you can do this by investing in a one-participant 401(k) plan. These plans are also called Solo-k, Uni-k, one-participant 401k, and one-participant k.

These plans are subject to the same rules as any traditional 401k plan. The plan covers the business owner or the owner and spouse. Solo 401k plans allow sole proprietors to make the highest contributions to their 401k plan through employee elective deferrals, employee contributions, and possible catch-up contributions. Retirement will come before you know it. Do not struggle in retirement. Be prepared. Speak with your tax preparer about the tax implications, and get started today!



BROOKS TAX SERVICE

Where we keep our Promise

Call our office today for more information on these topics, topics you would like to see, or other tax questions you may have.

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