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## Online Advisor – April 2023

### Upcoming dates:

#### April 18

- Individual income tax returns for 2022 are due
- First quarter 2023 estimated tax payments are due

If it seems like the income tax has been around forever, well, it's sort of true.

The modern Form 1040 was unveiled in 1913, the first year, after paying for the Civil War, that Americans were required pay income taxes to the federal government. With the April filing deadline right around the corner, this month's newsletter has a fun quiz to test your knowledge about this very first individual income tax form.

And with inflation still upon us, included are some great ideas to help manage your money and tips to help reduce your monthly bills. All this and suggestions on identifying and managing scams that are all too frequently targeting older Americans round out this month's newsletter.

As always, feel free to pass this information on to anyone that may find it useful and call if you have any questions or concerns.

## Tax Quiz - The Very First Form 1040

While Lincoln introduced the country to income tax to fund the Civil War, the modern 1040 individual income tax form was introduced in 1913. Here's a short quiz to see how well you know what was included on this very first tax form. Enjoy!

- **What was the due date of the initial 1040 tax form?**
- *March 1, 1914. The first year Americans were required to report their income was 1913, with the tax return due March 1, 1914. Failure to file on time could lead to a fine of between \$20 and \$1,000. A 30-day extension could be granted by the tax collector because of sickness or absence. Today we have an additional 45 days to file our tax return (March 1 to April 15) and can file for a six-month extension.*
- **What tax rate was applied to most incomes on this first Form 1040?**
- *The tax rate applied to most 1913 tax returns was 1%.*
- **If you had taxable income that exceeded \$500,000, you became subject to the Super Tax. What was the rate on these earnings?**



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- *6%. The maximum tax rate of 6% applied to taxable income that exceeded \$500,000. The 1913 tax brackets were 1%, 2%, 3%, 4%, 5% and 6%, compared to our current tax brackets of 10%, 12%, 22%, 24%, 32%, 35%, and 37%.*
- **Was a marriage penalty built into the original Form 1040?**
- *Yes. If single, your exemption amount was \$3,000. If you lived with your spouse, your exemption amount was only \$4,000. If you and your spouse worked (a rare event in 1913), you could divide the \$4,000 exemption any way you wanted to minimize your taxes.*
- **Name items that weren't taxed on the original Form 1040 but are taxed on today's form.**
- *The most common untaxed items were dividends and net earnings from corporations. The double taxation of corporate earnings we experience today started in 1954.*
- **True or False: All the original tax returns required a signed affidavit before an authorized officer of the government before being filed.**
- *True. All properly-filed tax returns required affidavits made before an officer authorized by law to administer an oath of accuracy. This could be a justice of the peace, a magistrate, or a certificate from a court clerk. Mailing in your tax return was not an option.*

## Help Older Adults Stand Up Against Scams

While anyone can become a scam victim, fraudsters usually turn to one demographic above all others: older adults. Here's a look at some of the more common scams that target older adults, along with some ideas to help stand up against these would-be thieves.

### The Top Scams That Target Older Adults

According to the National Council on Aging, here are the most common financial scams that target older adults:

- **Government impersonation scams.** Scammers will call and pretend to be from the IRS, Social Security Administration, or Medicare. The scammer may say the victim has unpaid taxes and threaten arrest or deportation if they don't immediately pay up or threaten to cut off Social Security or Medicare benefits if they don't provide personal identification. Once this information is obtained, it can be used to commit identity theft.
- **Sweepstakes scam.** The victim receives a call or message saying they've won a sweepstakes contest or lottery prize. As a condition of winning, victims are required to send money up front to cover tax and processing fees.



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- **Phone scams.** Scammers will call the victim and say, "Can you hear me?" When the victim responds "Yes," the scammer records their voice and hangs up. The scammer now has a voice signature to authorize charges on items like stolen credit cards.
- **Computer tech support scams.** These scams target a lack of knowledge about computers and technology. A scammer may proactively reach out to a potential victim by communicating via a pop-up window that says the victim's computer or phone is damaged and needs to be fixed. When the victim calls the support number for help, the scammer may request remote access to their computer or phone, and demand a fee to repair it.
- **The grandparent scam.** Scammers will call a would-be grandparent, tries to build rapport by pretending to be the victim's grandchild, and eventually asks the victim for money to help with an urgent financial problem.
- **Romance scams.** A scammer will build a relationship with the victim via social media or an online dating website before asking for a large sum of money. The Federal Trade Commission reported that losses to romance schemes reached a record \$304 million in 2020, up 50% from 2019.

## How You Can Help

If you know someone who could be a target, consider establishing regular get-togethers so you can inform them of these activities, ask if they have any financial (or non-financial) questions, and find out if they received any suspicious communication that may be a scam.

If you think someone has been scammed, suggest to them the following steps to report the theft:

- Call banks and credit card companies
- Reset account passwords
- Call the police to report stolen property
- Report the scam to the U.S. Senate Special Committee on Aging
- Report to the U.S. Justice Department's National Elder Fraud Hotline
- Submit a consumer complaint to the Federal Trade Commission

## Great Money Habits

Developing and maintaining great money habits can help you lay the foundation for achieving your financial goals. Here are some ideas.



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- **Establish a budget and review it at regular intervals.** Create a workable budget every year then set aside time to review your budget periodically. This will help you think critically about where your money is going and help you eliminate old, destructive money habits.
- **Calculate your net worth.** Your net worth is an indicator of your financial health and how you manage your money. To calculate your net worth, add all your money and assets, then subtract the total amount you owe to others. The result is your net worth. Often this result is negative due to things like student loans, high credit card balances, or underwater debt (e.g. you owe more on your car than it is worth). So don't worry about the result, just know what your net worth is so you can improve it over time. Like reviewing your budget, a regular check-in on your net worth allows you to think more about your finances and take the necessary action to improve it.
- **Use sinking funds to plan.** A sinking fund is an account where money is set aside to repay debt or replace a wasting asset (like a car that loses value over time). So create a sinking fund in your budget. Then decide how to use it. Given the rising rate environment, the best use is typically paying down any credit card debt. Then use the fund to attack any other debt, like pre-payment of mortgages. Also consider building a sinking fund to pay for future expenses, like replacing your car, furnace, roof or other large expense so you are ready when it needs replacement.
- **Stay curious about personal finance.** Your financial picture changes as your life changes, which is why it's important to always learn something new about money that you can apply to your situation. Pick several books, blogs, podcasts, and videos that look interesting, as they may offer a fresh perspective on tips to improve your finances.

Once you understand the basics of your financial situation, it's time to sit down and proactively plan ahead. Two of the most critical areas you can prepare for are minimizing your taxes and saving for retirement. So plan ahead and feel free to ask for help.

## Everyone Wants a Piece of Your Income

There is an old wisdom:

*Put a live frog in hot water and he'll jump out.*

*Put a live frog in cold water, turn the burner on and you'll have frog legs for dinner.*



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This wisdom is not lost on some businesses as they know it's easier to sell you a service once and then bill you for it automatically over a long period of time versus reselling the service to you each year. This form of billing, called recurring or annuity billing, is now common practice for most businesses. So who are the biggest users of this strategy?

- Cell phone companies\*
- Cable and satellite television companies\*
- Garbage haulers
- Banks\*
- Credit monitoring services
- Cloud computing services (storage and file sharing)
- Any "of the month" clubs (books, music, fruit, meats, etc.)
- Maintenance contracts from service providers (heating, air conditioning, landscaping, etc.)
- Subscriptions (newspapers and magazines)
- Other online services (finding/rating local supplier services, online TV viewing, sports viewing packages)

*\* often contain multiple annuities within a bill*

### **Action to Take Now**

**Create a list of your recurring charges.** Check your bank account and credit card bills for similar monthly charges. Identify each vendor related to the bill and note what the service is that they provide. Then calculate an annual column for each bill (monthly times 12). Next, add all the costs up to find a monthly and annual total.

**Note long-term contracts.** Check the contracts for any exit penalties and auto renewal clauses. Write the auto renewal companies immediately to formally move to month-to-month after the initial contract expires.

**Review the usefulness of each monthly bill.** Now rate each bill on a scale from one to five against how important each one is. Start closing down those that are less valuable to you.

**Move to annual billing where possible.** While it creates a larger bill upfront, it requires the product to be resold to you each year. If you still love the service, try to negotiate a lower rate. This tends to work well with suppliers like online digital radio services.

**Look for alternatives.** Perhaps it is more cost effective to drop a group of premium channels in your online viewing lineup or replace cable with an online streaming service.

**Eliminate overlap.** Many consumers now have multiple streaming services. Rationalize them and consider whether any could be eliminated. The same is true for gaming and music services.



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**Conduct an annual bill review.** A number of providers have multiple recurring charges within each bill! This technique is common with cell phone providers. So conduct an annual review of your bill with a service representative and look for a better deal.

**Eliminate autopay.** This out-of-site, out-of-mind technique is wonderful for the recurring billers. Paying for a service each month is a simple reminder of the cost of the service and a subtle hint to assess the value of the service to you. So each year, turn off your autopay. Leave it off until you have conducted your annual review. If the service is still of value, then and only then, turn it back on again. The problem with recurring billing is they slowly carve out portions of your income for many years. Perhaps it is time to jump out of a recurring charge or two and save some money.

## Tax Day...April 18th?

For the second year in a row, the traditional April 15th Federal Tax filing due date is being moved for a local holiday observance. Here's what you need to know about Emancipation Day and how it affects the traditional tax filing deadline.

### Background

President Abraham Lincoln signed the Compensated Emancipation Act on April 16, 1862, freeing more than 3,000 slaves in the District of Columbia. In 2005, April 16th started being observed as a legal holiday in the District of Columbia honoring Emancipation Day. (The 13th Amendment officially ended slavery throughout the United States when it was ratified on December 6, 1865.)

Other states observe Emancipation Day on different dates:

- Virginia - April 3rd
- Mississippi - May 8th
- Florida - May 20th
- Georgia - Saturday closest to May 29th
- Texas - June 19th
- Kentucky and Tennessee - August 8th
- Maryland - November 1st

### Current Situation

This year's April 15th tax filing deadline falls on a Saturday, which would normally push this deadline to the next business day, which is Monday, April 17.





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But Emancipation Day also falls on a weekend in 2023, making Monday, April 17 the observed holiday in Washington D.C. Because the observed Emancipation Day holiday falls on the same day as this year's normal tax filing deadline of April 17th, the IRS is required by law to move the tax filing due date to the next business day, which is Tuesday, April 18th. Most states have also changed their traditional filing due date of April 15th to match the federal date change.

Confused? You're not alone. In 2005, the IRS forgot to accommodate for this Washington D.C. holiday despite being legally required to move the filing date.

The good news is you can avoid the need to understand all these changing dates by filing your return as soon as possible, and not waiting until the last minute!

## Five Small Business Insurance Review Tips

Changes in your business equipment, real estate holdings, the amount of inventory, and the number of employees are all good reasons to review your business's insurance in addition to your annual review. Here are a few tips to keep in mind:

- **Keep in regular contact with your insurance company and your agent.** Keep your insurance agent apprised of what you are doing in your business. Try to meet with your agent throughout the year, and conduct a detailed annual review of your insurance needs. Also do the same thing with your policy company. One of the often overlooked benefits of a good agent is their knowledge of various insurance companies and not just the one currently insuring your business.
- **Understand how business changes affect your policy.** Figure out how your policy covers the changes you are seeing or anticipating in your business. This involves understanding the limits and terms of your policy. You can start by asking if you're properly insured for property damage, liability coverage, health and disability, and changes in asset values.
- **Conduct a competitive review.** Periodically conduct a competitive review of your insurance needs. Bring in at least two other insurance providers, as well as your current provider. The frequency of the review will be driven by changes in your business, the stability of your current insurance provider, and the need to understand the evolving landscape of business liabilities. A review will keep your premiums competitive, as well as help you learn about coverage gaps in your current policy.
- **Identify evolving coverage risks.** As the business climate evolves, so should your insurance coverage. Think about what's on the horizon. Legal trolls are active in areas like product packaging, use of images, and ADA requirements. And who would have anticipated the need to cover cyber attacks 10 years ago?



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- **Review safety plans and company policies.** This goes hand-in-hand with a business insurance review. Make sure your team is adhering to established employment and operations policies. Getting an insurance claim paid and maintaining reasonable premiums often depend on specific policies being in force prior to putting your policy in place.

Finding the right level of coverage for the right price is possible, but it takes some preparation and planning. Invest some time now to review your insurance policies to save a lot of potential pain and money down the road.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

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