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Understanding Social Security

Social Security is a federal program designed to provide retirement, disability, and survivor benefits to eligible individuals and their families. It's funded through payroll taxes, which are automatically withheld from most employee paychecks. If you've worked in the private sector, you've likely seen these withholdings noted on your pay stub or W-2. These amounts represent your contributions toward your future Social Security benefits.

For self-employed individuals, Social Security taxes are paid differently. Rather than being withheld from a paycheck, these taxes are assessed when filing your annual income tax return, through the self-employment tax. Regardless of employment type, the contributions you make over your working years determine the amount of benefits you'll eventually receive in retirement.

Is Social Security income taxable?

On its own, Social Security income is generally not taxed. However, when combined with other sources of income such as retirement distributions, investment income, or wages, up to 85% of your Social Security benefits may become taxable. The extent to which your benefits are taxed depends on your total income.

Planning Opportunities

There are strategies available to help reduce or even eliminate tax on your Social Security benefits.

One common approach involves lowering your taxable income. For example, converting pre-tax retirement accounts—such as a Traditional IRA—into a Roth IRA can be a highly effective strategy. Because qualified withdrawals from a Roth IRA are tax-free, they don't factor into the calculation that determines the taxability of your Social Security benefits.



Another valuable strategy is making Qualified Charitable Distributions (QCDs). If you are age 70 ½ or older, you can direct distributions from retirement plans straight to a qualified charity. Doing so not only fulfills your RMD (if you're required to take one) but also excludes the amount from your taxable income, potentially reducing or eliminating tax on your Social Security benefits. If you're interested in exploring these strategies, please call me.

Changes to Social Security Eligibility for Government Workers

Not all employees are required to pay Social Security tax. Individuals working in the public sector, such as federal, state, or local government employees, are eligible for a pension at retirement rather than Social Security. Since these workers do not contribute to Social Security, they are typically ineligible to receive benefits from the program.

But what happens if you receive a government pension, but have also worked jobs that required you to pay into Social Security? Under previous laws, receiving a government pension could significantly reduce or even eliminate your Social Security benefits at retirement. Additionally, the worker's spousal and survivor benefits could also be reduced if they receive a pension from employment not covered by Social Security.

The Social Security Fairness Act, signed into law in January 2025, provides long-awaited relief to government workers and their families. Under this new legislation, public-sector employees and their spouses may now qualify for unreduced Social Security benefits, provided they had earnings from work covered by Social Security. Eligible individuals will receive retroactive benefits from the beginning of 2024 as a lump-sum payment. If you haven't yet applied for Social Security and believe you qualify under the new law, you can apply online at ssa.gov/apply or call 1-800-772-1213 and say, "Fairness Act." If you've already applied, no further action is required; simply ensure that your contact and direct deposit details are up to date with the Social Security Administration.

Deposits have already begun and special tax reporting rules apply to lump-sum benefits. If you believe this change will affect your tax situation, please contact me so we can plan accordingly and make the most of your benefits.

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Charitable Contributions

Donations to charitable organizations are a great way to support causes you care about while potentially lowering your taxable income. Keep in mind that you must itemize deductions to claim a charitable contribution deduction.

Cash Contributions

Cash contributions to most qualified 501(c)(3) organizations can be deducted as an itemized deduction on Schedule A. These deductions are generally limited to 60% of your adjusted gross income (AGI). Any amount exceeding this limit cannot be used in the current year but may be carried forward for up to five years. For contributions made to certain organizations, such as veterans' groups and fraternal societies, the limit is reduced to 30% of AGI. To claim a deduction for cash contributions, you must retain proper documentation. If any single donation exceeds \$250, you also need a written acknowledgment from the charity confirming the amount donated and stating whether any goods or services were received in return.

Non-cash Contributions

Non-cash contributions to 501(c)(3) organizations, such as clothing, household goods, or other personal property are also treated as itemized deductions. These are generally limited to 50% of AGI, based on the fair market value of the items donated. If the donated items have appreciated in value, the deduction is instead limited to 30% of AGI. As with cash contributions, excess amounts may be carried forward for up to five years. If your total non-cash donations for the year do not exceed \$500, a written acknowledgment from the charity is typically sufficient. For donations over \$500, you are required to report the description of the donated property, its fair market value at the time of the donation, and the name of the organization receiving the gift.

If the total value of similar donated items exceeds \$5,000, a qualified appraisal is required. It's worth noting that the \$5,000 threshold applies to groups of similar items, not just individual items. The IRS requires the charity to sign Form 8283 if more than \$5,000 of property is donated. Taxpayers cannot appraise their own donations and must hire a qualified appraiser. If non-cash contributions exceed \$500,000 (or \$20,000 in the case of artwork), then a written appraisal must be attached to the tax return. It's also recommended that you take photographs of donated items to support your records.

One key exception to the appraisal requirement applies to donations of publicly traded securities such as stocks, bonds, and mutual funds. These types of gifts do not require an appraisal and can be a convenient, tax-efficient way to give. However, this exception does not extend to cryptocurrency or other digital assets, which are subject to appraisal requirements if their value exceeds the applicable thresholds.

If you plan to make charitable contributions this year and have questions about whether they are deductible and the types of supporting documentation you may need to retain, please call me.



Myth: If I sell long-term investments during the year (such as stocks, bonds, or mutual funds), I only need to pay capital gains tax on any increase in value.

Truth: While it's true that long-term investment gains are typically taxed at favorable capital gains rates, additional taxes may also apply. For example, if your income exceeds \$200,000 (\$250,000 if filing jointly), you may be subject

to the 3.8% Net Investment Income Tax on top of the capital gains tax.

Furthermore, not all assets qualify for the preferred capital gains rate. If you sell certain collectible items such as rare coins, watches, or wine then the gain may be taxed at a higher maximum rate of 28%.

Myth: Bonuses and overtime pay are taxed differently from my regular wages.

Truth: While it may feel like you're paying more tax on bonuses or overtime, they're actually taxed at the same rate as your regular income. **So why does it seem different?**

Employers often withhold more taxes upfront on bonuses or overtime. But don't worry, any extra withholding will be reconciled when you file your tax return. If too much is withheld, you'll get that money back when you file your tax return. **Want to double-check your withholding to make sure you're on track? Please call me.**

Myth: Contributions to political campaigns are tax-deductible.

Truth: This is a common misunderstanding. According to the IRS, donations to political candidates, parties, campaign committees, or related events including fundraisers and

conventions are not tax-deductible. Even if the cause feels important or aligns with your values, political contributions are considered personal expenses and aren't eligible for a tax break.

That said, there are some organizations that are politically minded but still qualify as tax-deductible charities. These are typically nonprofit groups that focus on education or public policy, such as think tanks or nonpartisan voter education efforts that do not engage in political campaigning or endorse candidates. Contributions to these types of organizations may be deductible, provided they meet IRS guidelines for charitable status.



Scam Losses: What's Tax Deductible — and What's Not

Financial scams are a pressing concern in today's world. To clarify the tax treatment of financial scams, the IRS has recently released guidance on when victims can claim tax deductions for losses incurred from scams. While not every scam is eligible for a tax deduction, this article will highlight which types may qualify.

The key factor is whether the loss came from a transaction you entered into for profit. If your motive was personal, such as helping someone you believed was a romantic partner or saving a loved one from a supposed kidnapping, the loss is treated as a personal casualty and is not deductible under current law. However, a deduction may be possible if the loss occurred as part of an investment or other profit-driven activity.

If an investment theft loss occurs, the loss is deductible in the year you discover there is little to no prospect of recovery. Little to no prospect of recovery means you reported the theft to your financial institution and law enforcement, and they confirmed the money is gone and unlikely to be recovered. Here's a breakdown of five common scams and how the IRS says the rules apply:

① Compromised Account Scam

Deductible ✓

In compromised account situations, scammers impersonate bank fraud specialists or government agents. They claim your accounts were compromised and convince you to move your money—often from IRA or brokerage accounts—into "safe" accounts. Those new accounts, of course, are controlled by the scammer.

If your intent in authorizing the transfer was to protect and reinvest your funds, your actions qualify as a transaction entered into for profit. The loss is deductible because your original investment was profit-motivated. But you must have reported the theft to the bank and law enforcement and received confirmation there is no reasonable prospect of recovery. If so, you can deduct the loss in the year you receive that confirmation.

② "Pig Butchering" Cryptocurrency Scam

Deductible ✓

In this common scheme, the scammer might promise high returns on cryptocurrency investments. Scammers build trust by showing fake account gains or letting you withdraw small amounts to convince you the investment is real. Once you invest larger sums—often from retirement or brokerage accounts—your money disappears.

Because you made the transfer believing you were making a profit-driven investment, the loss qualifies as a deductible theft under the tax code. Like other deductible cases, you must document that law enforcement confirmed there is no chance of recovery. The loss is deductible in the same year the discovery is made.

③ Phishing Scam

Deductible ✓

In a phishing scam, the bad actor will pose as a fraud analyst or banker and convince you to click on a link that provides them with login credentials to your investment account. The scammer will drain the funds directly from your account without authorization.

Because you invested in the stocks or bonds in your investment account with the intention to earn a profit, the IRS explains that this theft occurred in a transaction entered into for profit. Therefore, this loss is deductible. You will need documentation from law enforcement stating that recovery is not possible. The loss can be deducted from your income in the year you discover it and confirm that the funds are unrecoverable.

④ Romance Scam

Not Deductible ✗

Romance scams exploit emotions, not profit motives. Scammers build online relationships over time and then fabricate emergencies—like a sick family member—to solicit money. Victims often pull funds from retirement or brokerage accounts, believing they're helping someone they care about.

Unfortunately, because the motive was personal and not profit-driven, the romance scam loss is considered a personal casualty and is not deductible for 2018 through 2025.

⑤ Kidnapping Scam

Not Deductible ✗

In this alarming scheme, victims are led to believe that a loved one has been kidnapped. The scammer then demands ransom payments to secure the loved one's release. In a state of panic, victims feel they are the only ones who can help and often transfer money to the scammer, sometimes draining their retirement accounts in the process.

According to the IRS, these transfers are made for personal reasons rather than for profit. As a result, victims cannot claim these personal theft losses on their tax returns.

Requirements to Claim a Loss

To qualify for a deduction, the following criteria must be satisfied:

1. The scam must involve a transaction made with the intention of making a profit.
2. You must report the loss to your financial institution and law enforcement, typically the FBI.
3. You need documentation confirming there is little to no chance of recovering the funds.

Remember, the loss is deductible in the year it is determined that the funds are unrecoverable. Losses from personal scams like romance or kidnapping schemes do not qualify for a deduction from 2018 through 2025, no matter how devastating.

Contact me if you think you were a victim of one of these scams. I can help determine if your situation qualifies for a deduction and guide you through the documentation process. Don't navigate this alone — proper handling can make a financial difference.





0% Long Term Capital Gains Rate

Tax rates on long-term capital gains (for assets held more than one year) and qualified dividends remain at historically low levels of 0%, 15%, and 20%. However, income thresholds for these rates have been adjusted for inflation.

In 2025, the 0% capital gains rate applies to individual filers with taxable income up to \$48,350, head-of-household filers up to \$64,750, and joint filers up to \$96,700.

It's worth noting that short-term capital gains (gains on assets held for one year or less) are still taxed at ordinary income tax rates.

Social Security Wage Base Increases

For 2025, the Social Security wage base increases to \$176,100, up \$7,500 from 2024. The Social Security tax rate remains at 6.2% for both employers and employees. In addition, both employers and employees will continue to pay the 1.45% Medicare tax on all earned income, with no income cap. High-income earners will also be subject to the 0.9% Medicare surtax on wages and self-employment income over \$200,000 for single filers and \$250,000 for joint filers.

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Your Tax Calendar

Jun 16 Q2 2025 Federal Tax Estimate Due

Sept 15 Q3 2025 Federal Tax Estimate Due

Oct 15 Extended Individual Tax Return Due

Jan 16 Q4 2025 Federal Tax Estimate Due

*Taxpayers located in federally declared disaster areas may receive extended deadlines for estimated tax payments. **If you're unsure whether this applies to you, please call me.***

Mileage Deduction for 2025

If you're self-employed, keeping track of your business mileage can provide valuable deductions. For 2025, the IRS standard mileage rate is 70 cents per business mile driven.

If traveling for medical purposes, you may be eligible to deduct those miles at a rate of 21 cents per mile.

For charitable driving, the deduction remains at 14 cents per mile.



Be sure to maintain a mileage log to substantiate your deductions.

Need to Amend a Return?

If you've discovered information or documents that were left off of a previously filed return, we may be able to fix it with an amended return. In most cases, you have up to three years from the original filing deadline to make changes. This means that most tax returns for tax years 2021 or before are not eligible to be amended. ***Please call me with any questions.***