# Hess & Hess, LLP

Quarterly Tax Newsletter

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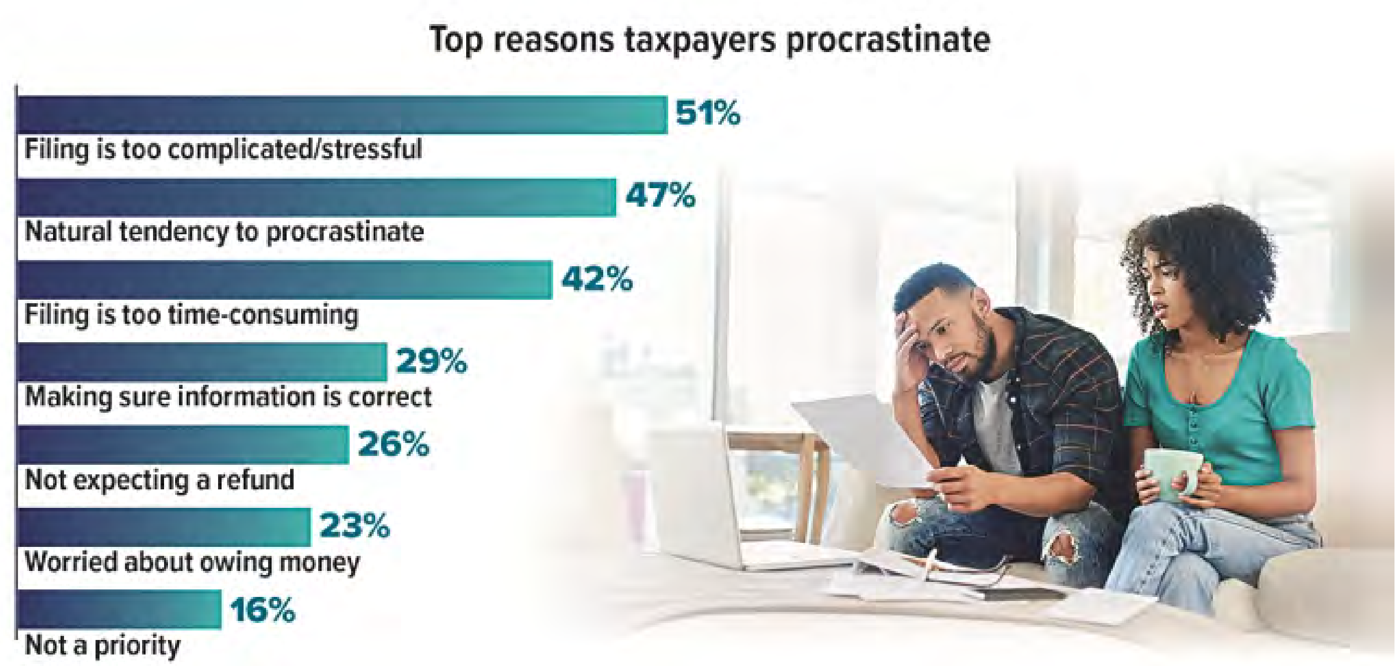
## Tax Time: Procrastination Is Common and Can Be Costly

April 15, 2025, is the tax filing deadline for most taxpayers. In a nationwide survey, three out of 10 Americans said they wait until the last minute to file their tax returns, and 50% rush to complete the filing process as quickly as possible. If you procrastinate, you might face an unexpected tax bill with little or no time to come up with the money. It may also be too late to act on opportunities to reduce your tax burden. In fact, taking a thoughtful approach to tax planning throughout the year could help you keep more of your earnings and improve your finances.




Source: Chamber of Commerce, 2024

# Catch Up for a More Comfortable Retirement

A 2024 survey found that only a third of U.S. workers age 50 and older feel that their savings contributions have them on track to enjoy a comfortable retirement.[1]

If your retirement account balance is lagging — or even if your nest egg seems robust — you can give your savings a boost by taking advantage of catch-up contributions that are available to those age 50 or older. This is often a time when salaries are highest, and you may thank yourself later if you put your current income to work for the future.

This opportunity is available for IRAs and employer-sponsored retirement plans — and there is a new opportunity in 2025 for some workers to make even bigger contributions to employer plans. You might be surprised by how much your savings could grow late in your working career.

## Employer plans

Employer plans offer the most generous tax-advantaged contribution limits, and employers often match employee contributions up to a certain percentage of salary. Employer plan contributions for a given tax year must be made by December 31 of that year, but employers will generally allow you to adjust your contributions during the year.

For 2025, the individual contribution limit for 401(k), 403(b), and government 457(b) plans is $23,500, with an additional $7,500 catch-up contribution for those age 50 and older, for a total of $31,000. However, beginning in 2025, workers age 60 to 63 can make a larger catch-up contribution of $11,250 for a total of $34,750. Like all catch-up contributions, the age limit for this "super catch-up" is based on age at the end of the calendar year. It is not prorated, so you are eligible to make the full $11,250 contribution if you are age 60 to 63 at any time during 2025 and do not turn 64 by the end of the year.

SIMPLE retirement plans have lower but still generous limits: $16,500 in 2025 plus an additional $3,500 catch-up contribution for employees age 50 and older or an additional $5,250 for employees age 60 to 63. (Some plans have higher standard and age-50 catch-up limits: $17,600 and $3,850, along with the $5,250 super catch-up.)

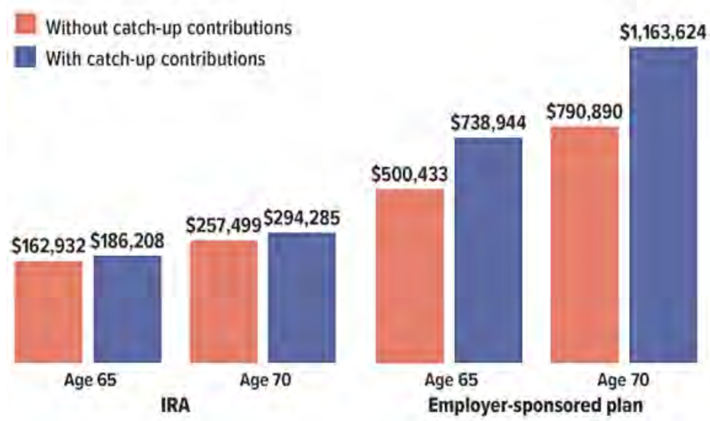
## IRAs

Unlike contributions to employer plans, IRA contributions can be made for the previous year up to the April tax filing deadline. So you can make contributions for 2024 up to April 15, 2025, and contributions for 2025 up to April 15, 2026. Make sure your IRA administrator knows which year the contributions are for.

The federal contribution limit in 2024 and 2025 for all IRAs combined is $7,000, plus a $1,000 catch-up contribution for those 50 and older — for a total of $8,000 each year. An extra $1,000 might not seem like much, but it could make a big difference by the time you're ready to retire. If only one spouse is working, a married couple filing a joint return can contribute to an IRA for each spouse as long as the working spouse has earned income that is at least equivalent to both contributions.

### Savings Boost

Additional amounts that might be accrued between age 50 and age 65 or 70, based on making maximum annual contributions at current limits to an IRA or an employer-sponsored plan (includes additional catch-up for ages 60 to 63)




Assumes a 6% average annual return. If annual inflation adjustments to maximum contribution amounts were included, actual totals could be higher. This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent any specific investment. It assumes contributions are made at end of the calendar year. Rates of return vary over time, particularly for long-term investments. Fees and expenses are not considered and would reduce the performance shown if they were included. Actual results will vary.

## IRA MAGI limits

IRA contributions up to the combined limit can be traditional, Roth, or both. If an individual is an active participant in an employer-sponsored retirement plan, the ability to deduct traditional IRA contributions phases out in 2025 at a modified adjusted gross income (MAGI) of $79,000–$89,000 for single filers or $126,000–$146,000 for joint filers ($77,000–$87,000 and $123,000–$143,000 in 2024). If one spouse is an active participant in an employer-sponsored plan and the other is not, deductions for the nonparticipant phase out from $236,000–$246,000 in 2025 ($230,000–$240,000 in 2024).

The ability to contribute to a Roth IRA phases out in 2025 at a MAGI of $150,000–$165,000 for single filers and $236,000–$246,000 for joint filers ($146,000–$161,000 and $230,000–$240,000 in 2024).

1) AARP Financial Security Trends Survey, 2024

# The Versatile Roth IRA

Used with care, the Roth IRA may help serve several objectives at once — like a multipurpose tool in your financial-planning toolbox.

## Retirement

First and foremost, a Roth IRA is designed to provide tax-free income in retirement. If your modified adjusted gross income (MAGI) falls within certain limits, you can contribute up to $7,000 ($8,000 for those age 50 or older) in earned income to a Roth IRA in 2024 and 2025. Although Roth IRA contributions are not tax-deductible, qualified withdrawals are tax-free. A qualified withdrawal is one made after the account has been held for at least five years and the account owner reaches age 59½, becomes disabled, or dies. Nonqualified withdrawals of earnings are subject to ordinary income taxes and a 10% penalty, unless an exception applies.

### 2025 Income Limits for Roth Contributions

| Filing status | Contribution limited if MAGI is: | No contribution allowed if MAGI is: |
|---|---|---|
| Single/Head of household | $150,000 to $164,999 | $165,000 or more |
| Married filing jointly | $236,000 to $245,999 | $246,000 or more |
| Married filing separately | $0 to $9,999 | $10,000 or more |

Source: IRS

## Emergency savings

Because contributions to a Roth IRA are made on an after-tax basis, they can be withdrawn at any time — which means, in a money crunch, you could withdraw just your Roth contributions (not the earnings) free of taxes and penalties. In addition, account holders may withdraw up to $1,000 in earnings each year to cover emergency expenses.[1]

## Teachable moments

A Roth IRA can also be an ideal way to introduce a working teen to long-term investing. Minors can contribute to a Roth IRA as long as they have earned income and a parent or other adult opens a custodial account in their name. Alternatively, an adult can contribute to a Roth IRA within a custodial account on a child's behalf, as long as the total amount doesn't exceed the child's total wages for the year.

## College and first home

Roth IRA earnings can be withdrawn penalty-free to provide funds for college and the purchase of a first home.

**College.** Roth IRA funds can help pay for certain undergraduate and graduate costs for yourself or a qualified family member. Expenses include tuition, housing and food (if the student attends at least half time), fees, books, supplies, and required equipment not covered by other tax-free sources, such as scholarships or employer education benefits. An advantage of using a Roth IRA to help pay for college is that assets held in retirement accounts are excluded from the government's financial-aid formula. (A related point: up to $35,000 in 529 plan assets that are not used to pay for college may be rolled over to a Roth IRA for the same beneficiary, provided certain rules are followed.)

**First home purchase.** Up to $10,000 (lifetime limit) can be used for qualified expenses associated with a first-time home purchase. You are considered a first-time home buyer if you haven't owned or had interest in a home during the previous two years. Funds may be used for acquisition, construction, or reconstruction of a principal residence and must be used within 120 days of the distribution. If the account has been held for at least five years, the distribution will be income tax-free as well.

## Estate planning

Roth IRAs are not subject to the age-based required minimum distribution rules that apply to non-Roth retirement accounts during your lifetime. For this reason, if you don't need your Roth IRA funds, they can continue to accumulate. After your death, the tax-free income benefit continues to apply to your beneficiaries (however, the value of your Roth IRA will be assessed for federal and possibly state estate tax purposes).

## Proceed with caution

Although it's generally best to avoid tapping money earmarked for retirement early, the Roth IRA can help serve multiple needs — if used wisely.

*The tax implications of a 529 savings plan should be discussed with your legal and/or tax professional because they can vary from state to state. Also be aware that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers. These other state benefits may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, can be obtained by contacting your financial professional. You should read these materials carefully before investing.*

1) Due to ordering rules, Roth IRA contributions will always be distributed before earnings.

# Have You Checked Your Social Security Statement Lately?

The Social Security Administration (SSA) provides personalized Social Security Statements to help Americans age 18 and older better understand the benefits that Social Security offers. Your Statement contains a detailed record of your earnings and estimates of retirement, disability, and survivor benefits — information that can help you plan for your financial future.

You can view your Social Security Statement online at any time by creating a *my* Social Security account at the SSA's website, [ssa.gov/myaccount.](https://ssa.gov/myaccount) If you're not registered for an online account and are not yet receiving benefits, you'll receive a Statement in the mail every year, starting at age 60.

## Monthly benefit estimates

Your Social Security Statement tells you whether you've earned enough credits by working and paying Social Security taxes to qualify for retirement and disability benefits and, if you qualify, how much you might receive. Generally, monthly retirement benefits are projected for up to nine claiming ages from 62 to 70. If you qualify, you can also see how much your survivors might receive each month in the event of your death.

The amounts listed are estimates based on your average earnings in the past and a projection of future earnings. Actual benefits you receive may be different if your earnings increase or decrease in the future.

Amounts may also be affected by other factors, including cost-of-living increases (estimates are in today's dollars) and other income you receive. Estimates are based on current law, which may change.


***Because estimates change over time, check your Social Security Statement annually to stay on top of future benefits you or your family members might receive.***

## Annual earnings record

In addition to benefit information, your Social Security Statement contains a year-by-year record of your earnings. This record is updated when your employer reports your earnings (or if you're self-employed, when you report your own earnings). Earnings are generally reported annually, so your most recent earnings may not yet be on your Statement.

Because Social Security benefits are based on average lifetime earnings, it's important to make sure your earnings have been reported correctly. Compare your earnings record against past tax returns or W-2s. If you find errors, let the Social Security Administration know right away by calling (800) 772-1213.

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