SEIKEL & COMPANY, INC.
686 W. MARKET STREET
AKRON, OHIO 44303

STUCK IN THE MIDDLE: LIFE IN THE SANDWICH GENERATION

The term "sandwich generation" was coined to describe baby boomers caught between caring for their aging parents and their children. The term now applies to whichever generation is grappling with the problem, today most commonly Generation Xers and older Millennials. If you're in the middle of the sandwich, it may be time for honest discussions about pressing issues. These may involve financial matters, such as funding children's higher education and paying for a parent's long-term care.

Start with the "bottom" of the sandwich: your children. What's appropriate to discuss with them will depend on their age. If they're still minors, you'll have most of the control over their significant decisions. By the time kids are in high school, you should be discussing their post-graduation plans and the extent to which you'll be able to fund college or help with other financial needs.

The "top" half of the sandwich can be more challenging. Depending on their health status, finances and other factors, your parents may not welcome your involvement in their decision-making. They might minimize or dismiss your concerns and be highly resistant.

To initiate a family meeting, invite all the key players — your parents, siblings and their spouses, if appropriate. If possible, hold the meeting face-to-face. An online video chat can work if distance or other factors make this unrealistic.

What should you discuss? Cover the entire tax and financial planning gamut. The dialogue should be frank. Many issues can be sensitive, and emotions may run high, so be prepared.

One session may not be enough to accomplish your objectives. You might need to include additional family members to resolve the issues. You may even want to broaden the circle to include your CPA or attorney. ■

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SEIKEL & COMPANY, INC.
www.seikel.com
686 W. MARKET STREET AKRON, OHIO 44303 (330) 668-1040 (330) 761-1040 FAX (330) 535-7253

Tax & Business Alert

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TAX SEASON CLEANUP: WHICH RECORDS CAN YOU TOSS?

If you've filed your 2024 tax return, you may be eager to do some spring cleaning, starting with tax-related paper and digital clutter. The documentation needed to support a tax return may include receipts, bank and investment account statements, K-1s, W-2s, and 1099s. How long must you save these records? Three years is the general rule. But don't be hasty: Failure to keep a paper trail for the information reported on a tax return could lead to problems if the IRS audits it.

THE BASICS

Generally, the IRS's statute of limitations for auditing a tax return is three years from the return's due date or the filing date, whichever is later. However, some tax issues are still subject to scrutiny after three years. If the IRS suspects that income has been understated by 25% or more, the statute of limitations for audit rises to six years. If no return was filed or fraud is suspected, there's no limit on when the IRS can launch an inquiry.

It's a good idea to keep copies of your tax returns indefinitely as proof of filing. Supporting records — such as canceled checks, charitable contribution receipts, mortgage interest payments, and retirement plan contributions — generally should be kept until the three-year statute of limitations expires. These documents may also be helpful if you need to amend a return.

So, which records can you throw away now? Based on the three-year rule, in late April 2025, you'll generally be able to discard most records associated with your 2021 return if you filed it by the April 2022 due date. Extended 2021 returns could still be vulnerable to audit until October 2025. But if you want extra protection, keep supporting records for six years.

RECORDS TO KEEP LONGER

You need to hang on to some tax-related records beyond the statute of limitations. For example:

- Retain W-2 forms until you begin receiving Social Security benefits. That may seem long, but if questions arise regarding your work record or earnings for a particular year, you'll need your W-2 forms to help provide the required documentation.
- Keep records related to real estate or investments for as long as you own the assets, plus at least three years after you sell them and report the sales on your tax return (or six years if you want extra protection).
- Hang on to records associated with retirement accounts until you've depleted the accounts and reported the last withdrawal on your tax return, plus three (or six) years.
- Retain records that support figures affecting multiple years, such as carryovers of charitable deductions or casualty losses until they have no effect, plus seven years.

- Keep records that support deductions for bad debts or worthless securities that could result in refunds for seven years because you have up to seven years to claim them.

Feel free to ask us if you're unsure about a specific document.

RETENTION TIMES MAY VARY

Keep in mind that these are the federal tax record retention guidelines. Your state and local tax record requirements may differ. In addition, lenders, co-op boards and other private parties may require you to produce copies of your tax returns as a condition of lending money, approving a purchase or otherwise doing business with you. Contact us with questions or concerns about tax-related recordkeeping. ■

PAYROLL FRAUD THREATS INSIDE AND OUTSIDE YOUR COMPANY

Payroll fraud schemes can be costly. According to a 2024 Association of Certified Fraud Examiners (ACFE) study, the median loss generated by payroll fraud incidents is $50,000. It's essential to know the payroll schemes making the rounds and how to prevent them – or at least catch them before they go on very long.

COMMON THREATS

Here are brief descriptions of some common payroll fraud threats:

Ghost employees. Perpetrators add made-up employees to the payroll. The wages of these "ghost employees" are deposited in accounts controlled by the fraudsters.

Excessive payments. Here, employees receive overtime pay by inflating their work hours.

Payroll diversion. Cybercriminals use phishing emails to trick employees into providing sensitive information, such as bank login credentials. This becomes a form of payroll fraud when they divert payroll direct deposits to accounts they control. Crooks might also target employers by sending them fake emails from "employees" requesting changes to their direct deposit instructions.

Expense reimbursement fraud. Employees receiving expense reimbursement might inflate their expenses, submit multiple receipts for the same expense, or claim nonexistent expenses. When perpetrated by employees, this is related to payroll fraud because reimbursements are often added to paychecks.

6 STRATEGIES FOR PREVENTING OR UNCOVERING PAYROLL FRAUD

Preventing payroll fraud — and uncovering it quickly if it still occurs — requires strong internal controls. Here are six strategies to strengthen your defenses:

1. Require two or more employees to make payroll changes, such as pay rates or adding or removing employees.

2. Flag excessive or unusual pay rates, hours or expenses, using exception reporting.

3. Closely monitor employee expense reimbursement requests. Notify employees when discrepancies are found and require corrections.

4. Regularly conduct payroll audits to detect anomalies.

5. Audit automatic payroll withdrawals to confirm proper transfers are made.

6. Allow changes to direct deposits only via email confirmation, requiring employee approval before processing. For example, ask the employee to verify that he or she requested the change.

In addition to employing fraud prevention strategies, educating employees about payroll schemes, phishing attacks, and the importance of not sharing sensitive information via email. According to the 2024 ACFE study, the median fraud loss for victim organizations that provided fraud training to executives, managers and employees was roughly half the loss reported by organizations without training programs.

PAYROLL FRAUD IS WIDESPREAD

Payroll fraud can threaten businesses of all sizes and industries. Your organization can mitigate the risk by understanding the forms of payroll fraud and implementing robust internal controls, frequent audits and employee training. ■

THE TAX SIDE OF GAMBLING

Whether you're a casual or professional gambler, your winnings are taxable. However, the Treasury Inspector General for Tax Administration reports that gambling income is vastly underreported. Failing to report winnings accurately can lead to back taxes, interest and penalties. Here's what you need to know to stay compliant and potentially minimize your tax liability.

REPORTING OF WINNINGS

Federal law requires reporting all gambling winnings — cash or prizes at fair market value — such as from casinos, lotteries, raffles, horse racing and online betting. Certain winnings are subject to federal tax withholding, reducing your risk of interest and penalties.

If winnings exceed certain thresholds (for example, $1,200 for slots, $5,000 for poker), the gambling establishment must issue Form W-2G to you and the IRS. Even if you don't receive a Form W-2G, you're still required to report gambling income.

AMATEUR OR PROFESSIONAL?

If you're an amateur, you'll report your gambling income on Form 1040, Schedule 1. You can claim gambling losses as itemized deductions, but only up to the amount of your gambling winnings.

If you gamble as a profession, the tax rules are a little different because your gambling activities are treated as a business. To qualify as a professional gambler, you must demonstrate that gambling is your primary source of income and that you engage in it with continuity and regularity. Contact us for more information on the tax rules for professional gamblers.

STAYING COMPLIANT

Tax compliance isn't tricky, but it's important. Here are some tips:

Log your gambling activities. Include details such as:

- Dates and locations of when and where you gambled,
- Types of wagers, and
- Amounts won and lost.

A log ensures that you accurately report winnings and helps you claim deductible losses when applicable. Having this substantiation can also be beneficial if you're audited. Remember that a log kept contemporaneously generally holds more weight with the IRS than one constructed later.

Maintain a file of gambling-related receipts, statements and other documentation. Thorough documentation is critical, especially if you'll be deducting gambling losses or you're a gambling professional and will be claiming gambling-related business expenses.

Adjust tax withholding or estimated tax payments if needed. Remember that income taxes must be paid annually via withholding or estimated payments. If the tax you owe on the April 15 filing deadline exceeds what you paid during the tax year through withholding and estimated payments, you might be subject to interest and penalties.

A RISKY BET

The tax rules for gambling income can be confusing. However, failing to report winnings is a risky bet that can result in back taxes, interest and penalties. Contact us for help. ■

TAX CALENDAR

April 15
Individuals must file (or extend) their 2024 personal returns and pay any tax due.

- Individuals, trusts and calendar-year corporations must pay first-quarter estimated taxes.
- Individuals must file a 2024 gift tax return or file for an extension and pay any gift tax due.
- Calendar-year trusts and estates must file 2024 returns or file for an extension.
- Calendar-year corporations must file a 2024 income tax return or file for an extension and pay any tax due.
- Individuals must file FinCEN Form 114 ("Report of Foreign Bank and Financial Accounts") if required, but an automatic extension to October 15 applies.
- Individuals must make contributions to IRAs for 2024. SEP and profit-sharing plan contributions are also due if the return isn't extended.

April 30
Employers must file Form 941 for the first quarter (May 12 if all taxes are deposited in full and on time). Also, employers must deposit FUTA taxes owed through March if the liability is more than $500.

May 15
Calendar-year exempt organizations must file (or extend) their 2024 Forms 990, 990-EZ or 990-PF returns.

June 16
Second-quarter 2025 estimated tax payments are due for individuals, calendar-year corporations, estates and trusts.