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FINANCIAL IDEAS FOR TODAY AND TOMORROW

Footnotes

The Truth Behind Common Tax Myths

Tax myths can spread quickly, leading to costly mistakes or missed opportunities. Here are several common tax myths along with best practices to help you stay grounded in reality.

MYTH: Moving into a higher tax bracket means you'll take home less money.

Reality: The U.S. tax system is progressive, meaning your income is taxed in layers. There are currently seven different layers, with tax rates ranging from 10% to 37%. When you enter a higher tax bracket, only the portion of income above the bracket threshold gets taxed at the higher rate, not your entire income.

Best Practice: Know your marginal tax rate! This is the tax rate of the next dollar you earn. By understanding this you can do your own calculations on the impact of any additional income you earn.

MYTH: Getting a tax refund means you did something right.

Reality: A tax refund means you overpaid your taxes. It's your money, coming back to you – without interest. Getting a big refund might feel great, but from a cash flow perspective, you're better off adjusting your withholding so you keep more of your paycheck each month.

Best Practice: Review last year's tax return, then update the numbers to reflect your situation for the current year. Factor in the latest changes such as tax-free tips, tax-free overtime and increased standard deductions, including the new \$6,000 deduction for seniors. Once you've made these adjustments, revisit your withholdings to make sure they're on track.

MYTH: You can deduct all your expenses if you're self-employed.

Reality: Not quite. While being self-employed certainly opens up more deduction opportuni-

ties, not every expense qualifies. Only ordinary and necessary business expenses can be deducted. That family trip overseas doesn't qualify unless it was genuinely work-related (and even then, only parts of it might qualify).

Best Practice: Set up a dedicated business bank account to handle all income and expenses related to your work. Then establish a regular schedule to transfer funds into your personal account for all non-business spending. And don't commingle funds with your personal expenses. The IRS may be quick to throw out ALL expenses if they see this occurring.

MYTH: You don't have to report income if you didn't receive a Form 1099.

Reality: If you earn money, the IRS expects to hear about it, regardless of whether you received a Form 1099. Many people assume that if a client or gig platform doesn't send you a 1099, then that income doesn't need to be reported on your tax return. But that's not how it

works. The tax code requires you to report all income, no matter how it's documented – or if it's not documented at all.

Best Practice: Keep a list of past 1099s to help you remember which clients or platforms have paid you before, and to double-check if you earned income from them again this year.

Please call if you have any questions about your tax situation.



Kristi Wick, CPA, is the partner
in our Mason City office.

FROM THE PEN OF A PARTNER

Common Tax Questions

Here are several common tax questions and their answers. But like most things, there can be exceptions, so if in doubt always ask for help.

What happens to a loan if it's forgiven?

The IRS generally considers the canceled amount as taxable income, unless an exception applies. This means you may have to report the forgiven debt on your tax return and pay income taxes on it. Lenders typically issue a Form 1099-C for canceled debts, which you must include on your tax return.

Does my child need to report cash earned from a lemonade stand? Yes, the cash your child earned is taxable. The IRS doesn't care if it came from mowing lawns, babysitting or lemonade stands, earned income is earned income. Your child may not end up owing any income taxes, though, thanks to the single taxpayer standard deduction of \$15,000 in 2025. But they'll still be on the hook for Social Security and Medicare taxes if their net profit is more than \$400.

Are my rewards earned on a credit card taxable? Taxation of any extras you earn with a credit card – including miles, discounts, even cash back – are not taxable if you had to pay to get them. Other rewards that you receive, for example a reward for signing up for a card or for referring a new cardholder, are considered taxable income per the IRS.

Does my employer contribution count towards the 401(k) limit? Your employer's matching contributions do not count toward your maximum contribution limit, which for this year is \$23,500. If you're 50 or older, you can sock away an additional \$7,500 (for a total of \$31,000) this year.

What happens to loans from my retirement account if I change jobs?

When you switch jobs, you must pay back any loans borrowed from your employer-sponsored retirement account within a short amount of time. If the loan isn't paid back, the outstanding balance is considered a distribution that is subject to income taxes and an early withdrawal penalty.

Do I really need to report gifts given to people? Yes, but only if you give more than \$19,000 (\$38,000 if married) in 2025 to any one person. It must be reported to the IRS on a gift tax return. That's because the IRS keeps track of gifts you're allowed to make over the course of your lifetime, which in 2025 is \$13,990,000 (\$27,980,000 if married). Only after reaching this lifetime dollar amount will you need to actually make a gift tax payment.

Do I have to report a loss? You may think the IRS isn't interested in losses you incur, such as when you sell a stock at a loss or if your business loses money. The reality is that you should always report losses on your tax return because you can use them to offset income under certain conditions. In addition, most losses can be carried forward to future years to offset income.



Why Do Socks Always Vanish? And Other Pressing Life Questions

It's a universal truth: socks have a way of disappearing. The mystery of the vanishing sock is an unsolved puzzle that everyone experiences. But what's really behind this bizarre phenomenon? And what about other everyday mysteries that leave us scratching our heads? It's time to unravel some of life's most pressing questions.

Why do my socks always disappear? First on the docket is the mystery of the missing socks. There are several mundane explanations that may account for this phenomenon:

Static cling. Socks, especially smaller ones, can cling to larger items like towels or sheets. They might then be folded into the item or fall off unnoticed as you fold your laundry.

Laundry escapees. Socks can fall out of the laundry basket or get left behind in your washing machine. If your home has multiple



Creating a Financially Savvy Family

Help set your family up for a great financial future. It's never too late to impart your wisdom to your children and grandchildren. Here are some age-relevant suggestions to help develop a solid financial IQ:

Preschool. Start by using dollar bills and coins to teach what the value of each is worth. Even if you don't get into the exact values, explain that a quarter is worth more than a dime and a dollar is worth more than a quarter. From there, explain that buying things at the store comes down to a choice based on how much money you have (you can't buy every toy you see!). Also, get a piggy bank to start saving coins and small bills.

Grade school. Consider starting an allowance and developing a simple spending plan. Teach them how to read price tags and do comparison shopping. Open a savings account to replace the piggy bank and teach them about interest and the importance of regular saving. Have them participate in family financial discussions

about major purchases, vacations and other simple money decisions.

Middle school. It is time to connect work with earning money. Start with activities such as babysitting, mowing lawns or walking dogs. Open a checking account and transition the simple spending plan into a budget to save funds for larger purchases. If you have not already done so, now is a good time to introduce the importance of donating money to a charitable organization or church.

High school. Introduce the concept of net worth. Help them build their own by identifying their assets and their current and potential liabilities. Work with them to get a part-time job to start building work experience. Add additional expense responsibility by transferring direct accountability for things like gas, lunches and the cost of going out with friends. Introduce investing by explaining stocks, mutual funds, CDs and IRAs. Talk about financial mistakes and how to deal with them when they happen by using some of

your real-life examples. If college is the goal after high school, include them in the financial planning decisions. Tie each of these discussions into how it impacts their net worth.

College. Massive debt often occurs during this period. Focus on borrowing money and all its future implications. Explain how credit cards can be a good companion to a budget, but warn about the dangers of mismanagement and not paying the bill in full each month. Discuss the importance of their credit score and how it affects future plans like renting or buying a house. Talk about retirement savings and the importance of building their retirement account.

Knowing about money – how to earn it, use it, invest it and share it – is a valuable life skill. Simply talking with your children about its importance is often not enough. Find simple, age-specific ways to build their financial IQ. A financially savvy child will hopefully lead to a financially wise adult.

people doing laundry, someone else may accidentally grab one of your socks.

Waste basket placement. If you have a waste basket in your laundry room, a sock may fall into it while you are transferring laundry and unintentionally gets thrown away.

Pets and kids. If your sock finds its way on to the floor of a teenager's bedroom, well, then it's gone forever. And believe it or not, pets also love socks.

Mystery Solved: So while there's no grand conspiracy, a sock's small size and elusive nature make it a prime candidate for disappearance. And once you throw the unmatched culprit out, its partner is single forever! If it really bugs you, consider getting a mesh laundry bag or sock clips to keep your pairs together.

Where are my keys? If you're constantly misplacing your keys or phone, you're not alone. This issue is linked to how our brains deal with memory:

Lack of attention. If you're distracted or in the middle of doing something else, your

brain doesn't process the act of putting down your keys. It's like trying to save a document without clicking Save.

Habit loops. Keys and other small items tend to get dropped in random spots rather than a consistent location, making it harder to recall where they are.

Mystery Solved: Create a designated spot, like a key bowl near a door. Also consider getting an electronic device to attach to your keys. You can then download an app to your phone to track them... you can even use these devices in reverse to find your phone. Plus, these suggestions can be used for many other items like a wallet, purse or pass keys.

Why does time fly when you're having fun? Ever notice how an hour spent folding laundry may seem like an eternity, but a weekend vacation seems to pass in the blink of an eye? This phenomenon boils down to how our brains process experiences:

Engagement and novelty. When you're having fun, you're fully engaged and your

brain is processing new, exciting information. This heightened activity makes time feel faster in hindsight.

Monotony slows your perception.

Conversely, routine tasks like sitting through a dull meeting lack novelty, making time seem to drag on and on.

Mystery Solved: Turn boring activities into a game. While doing your laundry, for example, set a timer and race to finish folding a designated pile before time runs out. Or try to organize your laundry by color or type as fast as possible. To get kids involved, turn each piece of laundry into a story starter. "This sock went on an adventure..."

While these every day events can easily turn into an annoyance, spend a second, reset and embrace the mystery.



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**When you are reluctant
to change, think of the
beauty of autumn.**

- V. V. BROWN

**Life is what happens when you
are busy making other plans.**

- JOHN LENNON

**Today is a
good day
to try.**

- THE HUNCHBACK
OF NOTRE DAME

***A little nonsense now
and then is relished by
the wisest men.***

- WILLY WONKA AND
THE CHOCOLATE FACTORY

**I do not care
what a person
has been.
I care what they
have become.**

- ELBERT HUBBARD

**Shoot for the
moon. Even if you
miss, you'll land
among the stars.**

- NORMAN VINCENT PEALE

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