

March 4, 2024 – Wealth Planning Commentary

IRS Audits High Earners

Last week, the IRS was in the news targeting higher earners, those making more than \$400,000 a year, for audit. The agency is scrutinizing taxpayers who have clearly earned more than \$400,000 and failed to file a tax return within the last six years. The auditors can simply look at 1099 and W2 filings and determine which taxpayers did not file in any given year. These targeted audits should not cause concern unless you have failed to file taxes in any year since 2017.

“High Yield” Savings Accounts... may fall short

The other headline reported by news media outlets last week is directed at high yield savings accounts. The Fed raised interest rates rapidly over the past couple of years, and many took it for granted that their savings yields at banks would rise in tandem. This is simply not the case. Several banks, including Capital One, UFB, and CIT Bank, were in the spotlight for misleading consumers about interest rates.

Capital One and UFB created a new savings account product when the Fed raised rates. The new product shared a similar name to the previous one. The goal was seemingly to pay existing clients with the low-rate product the same rate, while offering higher competitive rates to attract new business. Capital One had the ‘360 Savings’ account when rates were anemic. As interest rates rose, the bank created a new line of savings accounts called ‘360 Performance Savings’ accounts. The most salient difference between these products was the interest rate. Longtime customers could be misled to believe that their interest rate was automatically increasing every time the Fed raised rates.

Another important requirement to evaluate is whether there’s a minimum balance for when the higher rate applies. Read the fine print – some accounts apply a lower, less competitive interest rate if the funds do not meet the threshold. For example, CIT bank required a minimum balance of \$5,000 in a savings product to receive the highest available yield. Many of the bank’s customers were unaware of this requirement.

It’s a good idea to review checking and savings accounts to ensure that the interest rate is consistent with current rates. Some banks may avoid disclosing all the facts about their products in a clear way. One may call or email their bank if the interest rate is not clearly expressed online. There are likely options at other banks where the highest interest rate applies without a minimum deposit or balance requirement and does not charge fees.

Please reach out to your Wealth Manager with questions about IRS audits and the retail banking landscape.

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