FINANCE WITH THE FRIDAYS TREASURER

A Financial Literacy Newsletter

Issue 14, May 1, 2026

In this issue:

•Bottom Line with Brad
•Demystifying Taxes
•Refund or a Big Bill?
•Job Offers Decoded
•Start Now, Stress Less Later
•Tips for Teens
•Golden Guidance
•Financial Literacy in Action
•Recommended Reading
•Test Your Knowledge
•Editor's Note

Finance Fridays
is a publication of the N.C. Department of State Treasurer. Treasurer Brad Briner is focused on preserving, protecting and sustaining the state's pension and health care plans. Briner was most recently the Co-Chief Investment Officer for Willett Advisors and has held positions at Morgan Creek Capital, the UNC Management Company, ArcLight Capital and Goldman Sachs.



Bottom Line With Brad

TAXES

We've all got strong opinions on taxes. I certainly do, too. It's hard to even write about the topic objectively, but as taxes are the single biggest expense most people will incur in their lives, it's important for financial literacy purposes to address them. The timing here is intentional too – having just completed tax filing day on April 15, everyone has quite a bit of time to think about their plans this year as it relates to next year's taxes. As Ben Franklin famously said, "In this world nothing can be said to be certain, except death and taxes."

There are three basic kinds of taxes we pay – taxes on earnings, taxes on property and taxes on purchases. In some sense, that makes all taxes voluntary – you must do something to incur them. Which means with smart planning, you can reduce your tax burden, too. But we'll come to that later.

The Three Basic Kinds of Taxes



I think everyone has the same experience when getting their first paycheck, and I certainly did too from my first real job – cleaning movie theaters at the age of 15. I started at the then minimum wage of $4.25 an hour and somehow thought that's what I would get in my check … only to be unpleasantly surprised by withholding and payroll taxes. One of my daughters recently had the same experience and expressed her frustration memorably: "Who is this FICA, and why is he taking so much of my money?" While there are many taxes that can't be avoided, with some more knowledge of how the system works, you can plan your taxes much more efficiently.

In the United States, taxes are used to fund essential services on the local, state and federal levels. We have what is called a ***progressive system*** of taxation on earnings. Meaning that the more you make, the higher the percentage of your income that goes to fund the government. This gives rise to the first concept to truly understand as it relates to being smart about taxes – the difference between your effective tax rate and your marginal tax rate. With a progressive tax rate and substantial deductions and credits that reduce tax burdens to encourage certain activities, the difference between these two rates can be enormous. In fact, for the median income household in the U.S. today, the marginal income tax rate is about 12%, while the effective rate is about half that, or 6%.



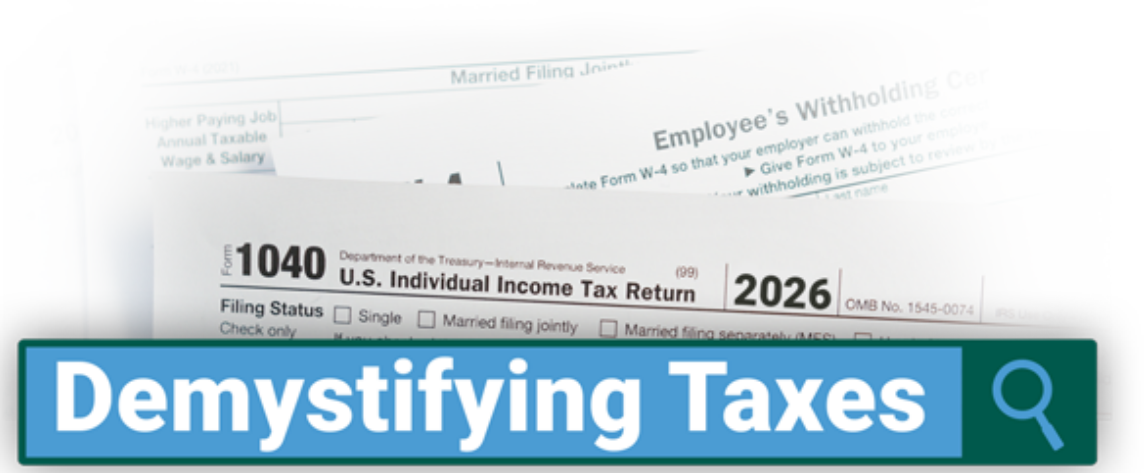
The second thing to know comes further along in your financial journey. It's that income taxes from wages are taxed differently from income earned on investments, at least at the national level. People discuss the merits of this distinction all the time and it often turns into partisan and political debates. Learning when it is taxed and how much it is taxed are key when you start to have discussions about creating wealth.

Now that we've covered some basics of how these taxes work, here are a couple of things to think about in managing your taxes:

1. **Be thoughtful about how much you withhold from your paycheck**. If you end up owing a large payment each year (and paying penalties), or getting a large refund each year, adjust how much you have taken out of your paycheck. Although getting a refund feels good, it means that you have typically made an interest-free loan to the government all year. Better to be more precise with your withholding and earn that interest yourself!
2. The good news is that about 90% of Americans take what is called the **standard deduction, which greatly simplifies tax planning**. The standard deduction means you don't have to track a bunch of items like mortgage interest, state and local taxes paid or charitable contributions as the standard deduction covers all of those for you. Unless you have a complicated financial life, take the standard deduction and make your life simple.
3. **Take as much advantage as you can of "pre-tax" dollars**. What this means is that there are certain retirement and health care programs that allow you to put money into programs which reduce your taxable income for now, for your benefit later. The most common example is a retirement plan like a 401(k) plan. If your employer offers one, and particularly if they offer an employer match (it's free money … you should take it!), this is a great way to benefit in the future and reduce your tax bill today at the same time.

There are hundreds of other topics we can talk about over time with taxes. They are everywhere and should be thoughtfully considered. But I think with these three pieces of advice, you'll be off to a great start to make next April 15 a little less stressful than this year's!







By: Noah Marks
Assistant Professor of Law,
UNC School of Law

With tax season ending a few weeks ago, I'm sure we'd all prefer to put taxes out of sight and mind for at least a few months. But since everyone just spent at least a few hours squinting at tax forms, now is a great time to step back and brush up on some basic tax concepts and terms. Let's demystify some of these general ideas to help all of us make more sense of our paystubs and, perhaps, even make tax season 2027 go a little smoother!

Income and Wages

The government taxes each of us on our **incomes**, which includes our **wages**. A good rule of thumb is that **income** is anything that makes us richer; for example, winning a $1,000 prize would be **income**. **Wages**, a type of income, are any compensation we receive for being an employee. Of course, both definitions are more complicated and, on top of that, not all **income or wages** are subject to tax. But these are a good approximation of the law.

For the rest of this article, let's assume we're an unmarried individual, we work as an employee at a donut shop, and we are paid $400 per 40-hour week (i.e., $10 per hour).This adds up to $20,000 per year (assuming 50 weeks of work each year). Each weekly payment would be subject to tax.



Marginal Rates

To determine how much tax we owe, we need to understand marginal tax rates. With respect to North Carolina, things are fairly simple. There is only one income tax rate that applies to every dollar of income: 3.99% in 2026. Therefore, using the example above, it is easy to determine how much North Carolina state income tax we will owe: multiply $20,000 by 3.99%, resulting in $798 of tax.

Federal income taxes are more complicated, because there are many different income tax rates that can apply, depending on how much income we have. What's important to remember is that the rates we hear everyone talking about are ***marginal* rates**, meaning they only apply to dollars of income above a certain threshold.

Returning to the example, if we had $20,000 of income in 2026, we would colloquially say that we're in the "12% bracket"— but that does **not** mean we owe 12% of $20,000 as taxes. Instead, the lowest federal income tax bracket is 10%, and it applies to our first $9,525 dollars of income. The 12% rate applies only to our dollars of income *over* $9,525 (i.e., to our 9,526th dollar and on). So, we would owe tax equal to:

- 10% of $9,525, which is $952.50 *plus*
- 12% of ($20,000 *minus* $9,525), or 12% of $10,475, which is $1,257

This adds up to $2,209.50 of federal income tax.

Medicare and Social Security

In addition to the income tax, the federal government also taxes us on our wages to

fund **Social Security and Medicare**. The **Social Security** tax applies at a rate of 6.2% to the first $184,500 of wages (in 2026), while the **Medicare** tax applies at a rate of 1.45% to every dollar of wages. Added together, this amounts to a 7.65% rate.



Returning to our example, this means that we would owe 7.65% of $20,000, resulting in additional $1,530 of taxes.

Paystub Withholding

Finally, we all think of ourselves paying taxes once a year, every April. But in reality, we owe — and pay — taxes **every time we receive wages**. The reason we often don't notice is because we don't have to separately write checks to the government every time we get a paycheck. Instead, the government has our employers deduct those taxes from our paychecks each pay period and pay them to the government on our behalf.

In fact, whenever any of us starts a new job, our new employers probably make us fill out a **W-4** form, which tells them how much tax to withhold. It is important that everyone withholds enough each pay cycle to avoid owing interest and penalties when April comes around.

Turning back to our example one more time, this means that the donut shop will deduct an estimate of our taxes from each paycheck, usually assuming that we will earn a steady salary each week of the year. Using our simplified example, they'd assume we'd earn $400 every week all year and, accordingly, withhold between $80 and $90 from each paycheck. Some of that will go to Raleigh, but most of it goes to the federal government, split between **income tax, Social Security, and Medicare**.

None of this is tax advice, but hopefully it is informative and helpful if you need to ask for advice from advisors about your specific situation.



A REFUND OR A BIG BILL

What You Need to Know About Your Taxes



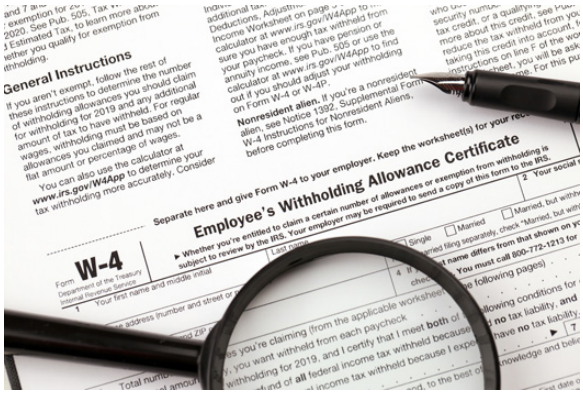
By: S. Scott Hensley, CPA
Partner at
Stancil CPAs

Taxes are a topic that is on everyone's mind when they hear "CPA". Conversations typically focus on how to save on taxes, how to get a refund and why people owe every year. We also end up with many questions about Trusts, Estates and Rental activities.

What becomes clear very quickly is that nearly every financial decision we make as "adults" has a tax impact. Because of that, it is essential to have a basic understanding of how taxes work. In this article, I want to highlight a few of the most common tax areas that affect the majority of people.

Why Don't I get a Refund?

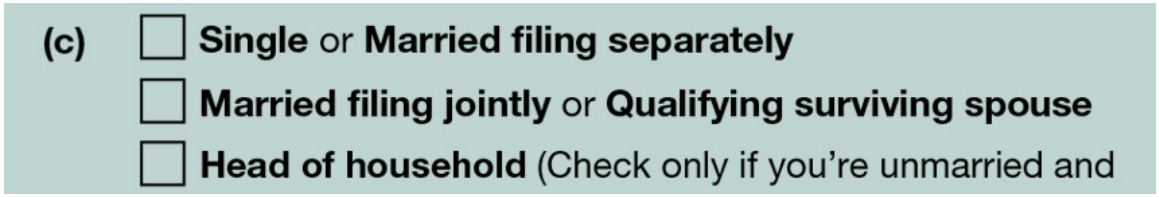
The most frequent question that I hear is "**Why don't I get a refund?**" This comes from individuals who are regular families with one or two sources of income; sometimes they have children. In most cases, the answer comes down to improper withholding from paychecks.



When you set up your W-4 from your employer when you are hired, you are determining how much tax will be withheld from each paycheck. Here are some tips that will help simplify the process and hopefully provide you with a refund.

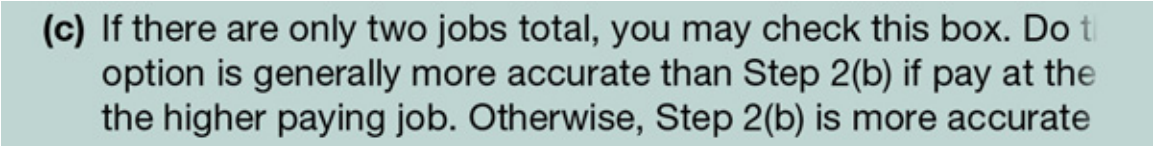
If this is your first job, the W-4 can feel confusing. Here is what I recommend to make it easier:

- At the top, fill out your name, address and Social Security number like normal.
- Next comes the big one. If your goal is to have more tax withheld during the year, selecting "Single" will generally increase withholding.



- If you are married and you only have 1 income, selecting "Single" often provides a cushion by increasing withholding and reducing the risk of owing taxes at year end.
- If you are Married and both spouses have jobs, "Step 2" of the W-4 is critically important. At this point, the form will ask you if you have multiple jobs. The biggest mistake for married people is that they don't check this box when each of them only has one job. This is the most common reason for married couples

owing taxes. If each spouse has one job, I highly recommend that each spouse check this box in “Step 2, part C” if they want to make sure to get a refund.



For many households, following these guidelines results in a refund or, at the very least, avoids a surprise balance due.

Breaking Even Versus Getting a Refund

Some individuals prefer not to overpay the government and would rather break even or owe a small amount when filing their tax returns. There is nothing wrong with this approach, but it does require planning.

For those who prefer this strategy, working with a CPA to fine tune their withholdings can be very effective. Another option is to intentionally set aside funds during the year to cover a potential painful payment in April.

My primary concern for many taxpayers is cash flow. People living paycheck to paycheck may not have the flexibility to save for taxes throughout the year. In these cases, properly withholding becomes especially important so that taxes do not turn into a financial hardship.

Special Situations: Bonuses and Retirement Income

Two other groups of people that I help the most from a tax planning perspective are those that receive bonuses and those that are retired and living off retirement income.

For employees that receive bonuses either in cash or stock, most often we find that the company did not withhold the proper amount on their bonus or stock transaction. Companies are only required to withhold either 10% or 20% on bonuses. However, because a bonus is usually taxed at your highest tax rate (around 24% or as high as 37%), most people end up owing a large sum of money on April 15.





For example, consider someone receiving a $50,000 bonus. Let’s also assume that their marginal tax rate (the rate at which every additional dollar is taxed) is 32% but the company withheld at 20%. In this case you should have $16,000 withheld but only $10,000 was withheld. This means you would owe $6,000 come April 15. Without planning, this can create a significant cash-flow issue.

I strongly encourage those that get bonuses during the year to contact me when this occurs. We find out how much more money can be paid in as an estimate to the IRS

during the year. These estimates can be paid online here: https://www.irs.gov/payments. By paying in the estimates during the year or putting the money into a savings account, you can be prepared come April 15 and not be shocked by the large payment due.

Retirees often face tax challenges because many of their income sources do not have automatic withholding. Interest, dividends, capital gains, and Social Security can all generate tax liability without taxes being withheld upfront. Most brokerage houses will withhold at a 15%-20% rate on retirement account distributions. While that may cover the tax on the withdrawals themselves, it often does not cover taxes owed on other income sources. In many cases, increasing withholding to 35%-40% on retirement withdrawals or making quarterly estimated payments is necessary to stay current on taxes.

Final Thoughts

Taxes are personal. There is no single correct approach that works for everyone. Each person's income, lifestyle and financial needs are different. The key to avoiding tax stress is understanding what drives your tax liability and planning for it. When needed, seeking help from a qualified tax professional can make all the difference.





By: Barbara Senich
Board Advisor,
FlyteHealth

Job offers are exciting! They mark the start of a new chapter whether it is your first offer after college or further along your career journey.

There are many financial and nonfinancial considerations when evaluating a job offer - whether it is here in North Carolina or somewhere else across the country. Before you

accept one, it is important to estimate your **net take-home pay** so that you can budget for an apartment, food, transportation, etc.

The Basics: Deductions from Base Pay

Overview: *Employers withhold money from each paycheck to prepay certain federal, state and city income taxes, Medicare tax, and Social Security tax. Standard deductions include:*



Federal Income Tax: Marginal tax rate varies by income; the IRS changes tax brackets periodically.



State Income Tax: Many, but not all, states levy an income tax. Some states have a flat tax (%), others have a graduated income tax (higher marginal tax on people who earn more). Rates range from 0% to 13.3% (2026). While many states follow the federal rules, the income subject to taxation may also vary.



City Income Taxes: Some cities (such as New York City, Detroit, Philadelphia, Baltimore, among others) also impose an income tax in addition to a state tax. In 2026, these range from 1.0% to 3.9%. These taxes apply to residents and, in some cases, to individuals who work in the city but live elsewhere.



Medicare: Medicare taxes are 1.45% of gross income; your employer pays another 1.45%. If you make over $200,000 you pay an additional 0.9% on the amount over $200,000.



Social Security: Social Security taxes are 6.2% of gross income up to the Social Security Cap ($184,500 for 2026); your employer pays another 6.2% on your behalf.



Other State Deductions: These vary by state but may include disability insurance, unemployment insurance and family leave taxes, among others.

When evaluating a job offer, it is important to estimate your take home pay **in the state and city you will be working**. The examples below show the impact of federal, state and city taxes for a salary of $150,000. Note: the only additional deduction shown is a pretax contribution to a 401(k). Other deductions will vary substantially based on your choices.

Estimated Take-Home Pay: Examples in 3 municipalities (04-26-2026)

For illustrative purposes only; always make sure you are using the most current tax rates and brackets

	Gross Pay: $150,000 / year					
	Miami, FL		Chapel Hill, NC		New York, NY	
Income Taxes	Rate (%)	$	Rate (%)	$	Rate (%)	$
Federal Income	15.51	$23,265	15.51	$23,265	15.51	$23,265
State Income	0.00	$0	3.99	$5,985	5.00	$7,500
Local Income	0.00	$0	0.00	$0	3.44	$5,160
Total Deductions: Income Taxes	**15%**	**$23,265**	**19%**	**$29,250**	**24%**	**$35,925**
FICA and Other State Taxes	Rate (%)	$	Rate (%)	$	Rate (%)	$
Social Security	6.20	$9,300	6.20	$9,300	6.20	$9,300
Medicare	1.45	$2,175	1.45	$2,175	1.45	$2,175
State Disability Insurance Tax	0.00	$0	0.00	$0	0.02	$30
State Unemployment Insurance Tax	0.00	$0	0.00	$0	0.00	$0
State Family Leave Insurance Tax	0.00	$0	0.00	$0	0.06	$90
State Workers Compensation Insurance Tax	0.00	$0	0.00	$0	0.00	$0
Total Deductions: FICA, etc.	**7.65%**	**$11,475**	**7.65%**	**$11,475**	**7.73%**	**$11,595**
Employee Choices and Investments (Personalize)						
Medical Insurance		$0		$0		$0
Dental Insurance		$0		$0		$0
Vision Insurance		$0		$0		$0
Contributions to 401(k) / Roth 401(k) (Retirement)	5% of Gross	$7,500	5% of Gross	$7,500	5% of Gross	$7,500
Long Term Disability Insurance		$0		$0		$0
Life Insurance		$0		$0		$0
Commuter Plan		$0		$0		$0
Healthcare Savings Account		$0		$0		$0
Flexible Healthcare Spending Account		$0		$0		$0
Other items TBD		$0		$0		$0
Total Deductions: Other		**$7,500**		**$7,500**		**$7,500**
Est. Annual Net Take-Home Pay	**$107,760**		**$101,775**		**$94,980**	

Source: https://smartasset.com/taxes/paycheck-calculator

Note: **Federal income** tax rates and some **state and city income** tax rates vary by income. The net effective income tax rates shown for states / cities may vary slightly from published rates due to allowable exemptions.

Social Security taxes are 6.2% of gross income up to the Social Security Cap ($184,500 for 2026); your employer pays another 6.2%.

Medicare taxes are 1.45% of gross income; your employer pays another 1.45%. If you make over $200,000 you pay an additional 0.9% on the amount over $200,000.

Estimated Net Take Home Pay before "Other Deductions" **Other Deductions** for benefits are variable (by employer and by options selected by the employee). As such, they are only listed here as a reminder to consider them as appropriate. Your choices will impact some taxes, as well. **State Income Tax Rate:** The best place to obtain current state income tax rate(s) and brackets is the state's tax collection website.

Pro Tip: *For states that have taxes that vary by income level, you may want to model taxes at both your starting income level as well as a potential future income.*

Bonuses:

There are several types of bonuses that may be included in a job offer. Be sure to understand the details.

Performance Bonuses

Performance bonuses are designed to motivate employees to help an organization meet its business goals. These are typically paid either annually (with the payment coming a few months after the calendar year is over) or quarterly. It is common for the

offer to describe the opportunity as a % of base salary (e.g. “15% of base with a range of 7% to 25%, depending on employee and Company performance”).

Pro Tip: *Performance bonuses are not guaranteed. Create your budget with this in mind.*

Signing Bonuses

Sometimes employers will offer prospective employees a fixed, one-time bonus (e.g. $10,000) when they agree to join and remain with an organization. In some cases, a portion of the bonus (e.g. 50%) is paid immediately and the rest at the end of the first year of employment. In other cases, the employee may receive the entire bonus upon joining but be required to pay back some $ if they leave the organization prematurely.

Tax Impact: *Performance and signing bonuses are taxed as ordinary income in the year paid out.*

Company Equity:

Offers from for-profit companies may include company equity (ownership). All are designed to: (1) encourage employees to stay with the company, and (2) increase the value of the company by helping the business meet its goals. Four common types include:

Incentive Stock Options (ISOs): Stock options are the right to purchase stock in a publicly traded, for-profit company at the price when granted (“strike price”). The expectation is that the company’s stock price will go up over time, meaning that the future price minus the strike price will be a positive number (profit). Typically, ISOs vest (become the employee’s property) over a specified period of time (e.g. 20% a year over 5 years). See the example below:

Tax Impact: *The proceeds from exercising ISOs are generally taxed as ordinary income in the year they are exercised.*



Award: 1,000 Stock Options

Strike Price: $100

Vesting: 20% per year for 5 years; expires 10 years from date of grant

Per Share Increase in Value by Year 5: $175 - $100 = $75

Value of Stock Option Grant Upon Exercise: 1,000 Options x $75 = $75,000 less any taxes due

Management Incentive Units (MIUs): For-profit companies that are privately held cannot issue stock options because their equity is not publicly traded. They may, however, award “Management Incentive Units” (MIUs). The valuation of the award (the “hurdle”) is determined by the company rather than through a market-based price. In most cases, the MIUs only have value when the company is sold or when there is a new investment. Terms and potential value vary widely.

Tax Impact: *The proceeds from MIUs are generally taxed as ordinary income and/or*

capital gains in the year they are paid out (depending on how long the MIUs are held). The legal structures of MIU plans vary which may also impact tax treatment of the proceeds.

Note: There are many variations on equity programs offered by companies. Tax rules vary by type and by state. Employees should familiarize themselves with their company's program and seek professional financial and tax advice.

Stock Grants: Companies may offer stock grants alone or in combination with stock options. The employee is granted a specific number of shares in the company. There is usually a vesting period before the stock can be sold.

Tax Impact: *You pay taxes (ordinary income) on the total value of the stock when it vests (becomes your property). If the stock increases in value after the vesting date, you pay taxes on the gains when it is sold. If the stock is owned for less than a year, gains are taxed as ordinary income. If the stock is owned for a year or more, the gains are typically taxed as capital gains.*



Discounted Stock Purchase Plans: Companies may give employees the right to purchase company stock at a discount (a 10-15% discount is typical). The employee chooses the $ amount to be withheld from their pay each month which the company uses to purchase stock for the employee.

Tax Impact: *The discount itself is not, in general, considered taxable when you purchase the stock. Rather, taxes are paid on any increase in stock value + the discount when the stock is sold at a higher value than when purchased. Generally speaking, gains in stock value are treated as ordinary income if the stock is held less than a year; and are treated as capital gains if held for a year or more.*

Note: There are many variations on equity programs offered by companies. Tax rules vary by type and by state. Employees should familiarize themselves with their company's program and seek professional financial and tax advice.

Finally! Reducing Taxes and Maximizing Compensation:

401(k) Retirement Plan: Your offer may also include a 401(k) retirement plan. The employee determines a percentage of their pay to be deducted from each paycheck. That is then deposited into the employee's retirement savings plan.

To encourage employees to save for retirement, your offer may include an employer match. This can take many forms, but “dollar for dollar saved up to 4% of salary” or similar would be typical. Employees should try hard to save as much as possible but at least the amount of money that is matched by the employer. Otherwise, employees are leaving “free money” on the table.

Tax Impact: *You legally avoid income tax on the money you contribute, on earnings, and on any employer match, during your career. You pay taxes on withdrawals (principal and earnings are taxed as ordinary income) when you take money out after age 59 ½. Note: You do pay FICA taxes on the amount you contribute to your 401(k).*

This information is for general informational purposes only. Always consult a licensed financial, legal, investment, and tax professional to understand the most current laws, regulations, and practices relevant to your employment, personal financial situation, retirement, investing, and tax obligations.





By: Geri Lail,
Incoming Tax Resource Group Chair,
NCACPA/TJT Tax Partner

As we recover from another busy - and for many, stressful - tax season, planning for next year’s April 15 deadline is likely the last thing on your mind. However, by taking a proactive approach now, you can significantly reduce stress, avoid surprises and even create tax-saving opportunities.

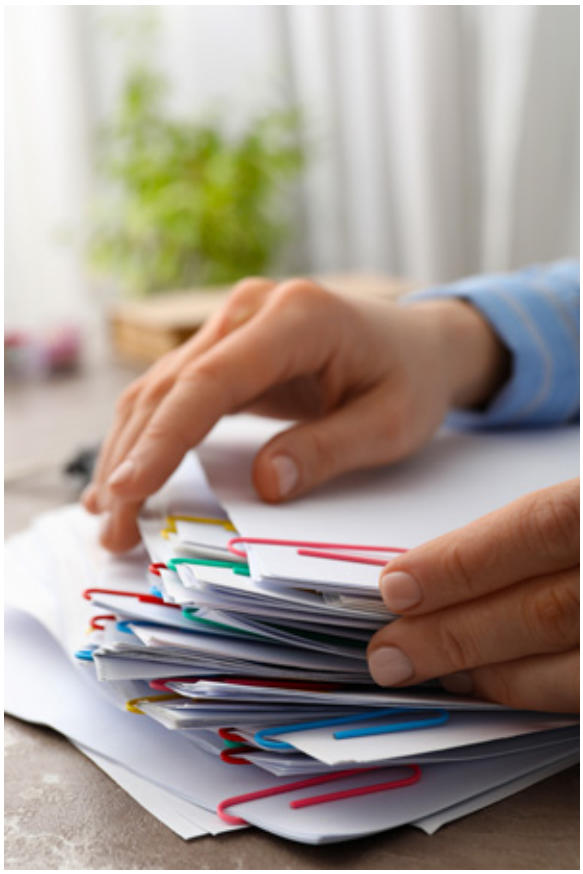
Develop Better Habits

One of the most familiar challenges for taxpayers is scrambling to gather documents weeks before filing. Instead,

develop a system to organize receipts and track deductible expenses throughout the year.

Many mobile apps allow you to scan receipts and categorize them in real time. Additionally, downloading bank and credit card transactions monthly into a simple spreadsheet can assist with organization. Small business owners can benefit from affordable software solutions that track income and expenses consistently. Additionally, reconciling bank accounts and credit card statements monthly is key to staying current and avoiding larger issues later.

Consider consulting with your financial advisors throughout the year to assist with planning. Many tax-saving opportunities are time-sensitive and can take longer than expected to implement.



Tax Planning Opportunities

For tax years 2025-2028, there are above-the-line deductions for both tipped employees and workers who receive overtime wages under §7 of the FLSA, as defined under 29 U.S.C. §207. The IRS intends to revise Form W-2 for 2026 so that qualifying tips and overtime wages are more clearly identified. However, it is critical for self-employed individuals or freelancers who receive tips to ensure their tips qualify under IRS guidance and to maintain good records of their tips throughout the year.

While many taxpayers rely on the standard deduction, more taxpayers may now itemize due to the increased SALT cap limits of $40,400 for certain taxpayers. However, beginning in 2026, certain itemized deduction limits have changed. For charitable contributions, a 0.5% floor applies to those who itemize. However, non-itemizers can deduct up to $1,000 (single) or $2,000 (married filing jointly) for charitable contributions. Additionally, taxpayers in the highest bracket will see a reduction in itemized deductions based on a reduction formula. Taxpayers affected by these limitations may consider bunching their deductions into a single tax year to maximize savings.

Taxpayers who made opportunity zone deferral elections under the pre-2027 rules generally will recognize deferred gain no later than December 31, 2026, and will need to pay federal tax on those deferred gains by April 15, 2027.



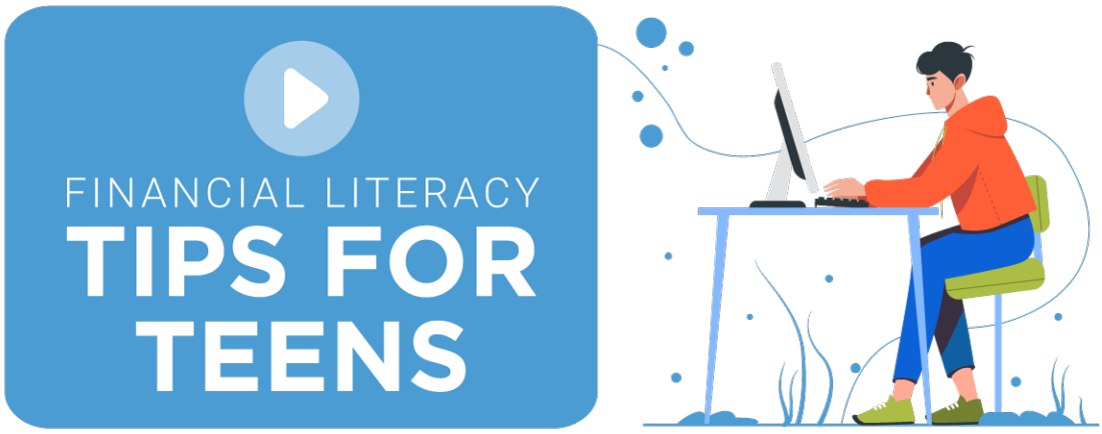
Planning strategies, such as harvesting losses, could help reduce the tax impact.

Personal interest paid for vehicle loans is now deductible up to $10,000 per year for new qualifying vehicles for certain taxpayers. The deduction is available regardless of whether a taxpayer itemizes or takes the standard deduction. This deduction is subject to income phaseouts, and the qualifying property requirements are specific.

Taxpayers with income sources not subject to withholding should consider making quarterly estimated tax payments. Failing to do so could result in underpayment penalties and a significant balance due next April. These penalties are based on current interest rates, and because those rates have increased in recent years, minimizing them has become more important.

Business owners can still accelerate deductions through provisions like Section 179 and bonus depreciation for qualifying property placed in service during the tax year. Automobile expenses remain a common deduction area for business-use vehicles. Taxpayers have two options to account for vehicle expenses. The first method is the actual expense method, which allows deductions for fuel, depreciation, maintenance and repairs, insurance, and property taxes. The second is the standard mileage method. For 2026, the standard mileage rate is 72.5 cents per mile for business miles driven. The choice of actual expense versus standard method is made on a per-vehicle basis. Tracking business miles by keeping accurate mileage logs is simple using many mobile apps.

No one likes an unexpected tax bill. **With consistent recordkeeping and proactive planning, taxpayers can gain a clearer picture of their tax liability throughout the year and better manage cash flow**. Implementing these suggestions now can make a significant difference next April.







EIGHT MISTAKES TAX PROS SAY YOU CAN AVOID



By: Steve Hahn
AARP North Carolina

Tax Day is now in the rearview mirror. But as you move forward, you can avoid some costly mistakes tax pros say you should start thinking about today and avoid next April:

1. Not claiming the new deduction if you're an eligible taxpayer 65 or older
As part of the federal tax code changes introduced in 2025, taxpayers 65 and older can claim up to an additional $6,000 deduction — or $12,000 for couples filing jointly when both spouses are 65 or older

— on top of the standard deduction for tax year 2025.

This deduction is “above the line,” meaning that you can claim it even if you don’t itemize your taxes. It’s offered only through the 2028 tax year.



2. Assuming taxes are withheld from retirement income
It’s surprisingly common for Social Security recipients to owe taxes.

If your annual income is between $25,000 and $34,000 ($32,000 and $44,000 for joint filers), up to 50% of your Social Security benefits are taxable. If your income is above the top end of those thresholds, up to 85% of your benefits are taxable.

It’s not just Social Security benefits. When it comes to taxes on income from other sources not subject to automatic withholding, you may owe for any interest or dividend income, or capital gains when you sell an asset such as a home or stock in a taxable account.

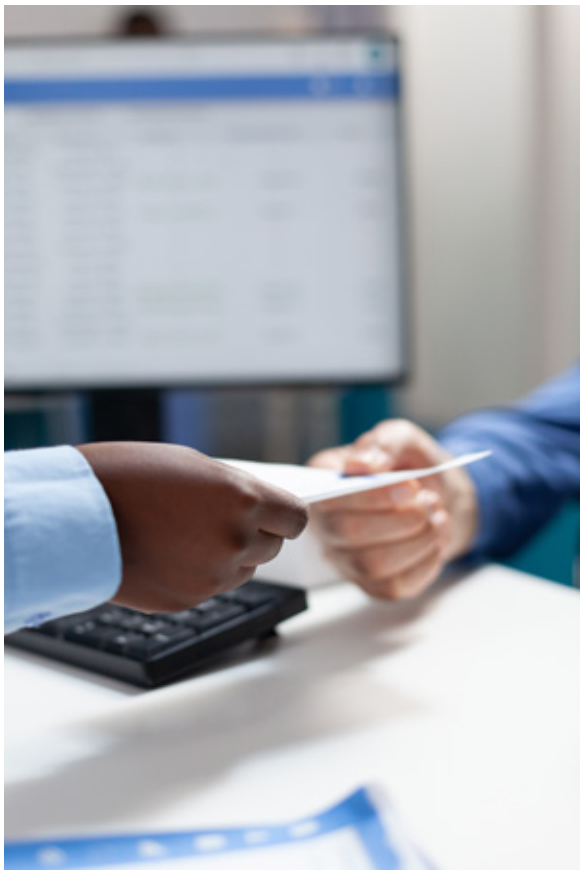
3. Forgetting to pay quarterly taxes
For workers who have spent decades as a W-2 employee — with taxes automatically withheld from their paychecks — the shift to retirement can sometimes be an expensive learning curve. Quarterly tax due dates are generally the 15th of April, June, September and January.

4. Not giving yourself credit for money you’ve put into your home
If your retirement plans include selling your home, you might be facing capital gains on the sale. If you’re a single filer, home sale profits above $250,000 are taxed as capital gains. For married couples filing jointly, the threshold is $500,000. But that doesn’t have to mean a huge tax bill, because the IRS taxes your profit — and you’re allowed to subtract money you spent on home improvements over the years. The kitchen, bathrooms, roof, central air conditioning — all those improvements count and should be tracked.

5. Overlooking the new deduction for car loan interest
There’s another key tax provision enacted in 2025 to be aware of. If you took out a loan to buy a new vehicle in 2025, you might be able to deduct up to $10,000 of interest paid during the year — even if you don’t itemize your taxes.

To qualify, the vehicle’s final assembly must have taken place in the U.S., and it must weigh less than 14,000 pounds. (To find out where your car was assembled, enter the vehicle identification number into the National Highway Traffic Safety

Administration's VIN Decoder. The assembly location will be listed in the "Other Information" section.)



6. Missing out on the higher SALT deduction cap
Before 2017, there was no limit to the amount of state and local taxes taxpayers could deduct on their federal tax returns if they itemized. But beginning in 2018, the so-called SALT deduction was capped at $10,000 a year for most filers.

For tax years 2025 through 2029, there is a temporary raise in the SALT cap to $40,000 for most filers. The limit will increase 1% each year through 2029, then drops back to $10,000 in 2030.

7. Not planning for pretax retirement account withdrawals
Traditional 401(k)s and IRAs offer pretax contributions, lowering your current taxable income, but you have to pay income tax on that money when you start making withdrawals. Without a strategy in place, you could be digging deeper into your pocket than you would otherwise have to.

If you have a large nest egg in pretax retirement accounts, not preparing for the tax implications of required minimum distributions (RMDs) can lead to a surprise tax bill if the amount of your distribution pushes you into a higher tax bracket, and it could trigger Medicare premium surcharges as well.

8. Getting the timing wrong on Roth conversions
Because money you convert from pretax retirement accounts into Roth accounts is taxed at your ordinary income rate in the year that you make the conversion, many financial advisers say the best time to convert them is in lower-income years. If you don't time the conversion correctly, you could be stuck paying a higher marginal tax rate.

Advice in this article was provided by **Martha C. White** for the ***AARP Bulletin***. She writes about business, finance and the economy and her work has appeared in *The New York Times,* CNN, *Time*, NBC News, *Money* and other outlets.

Financial Literacy in Action

Brad had the opportunity to speak with students competing in the state finals of the

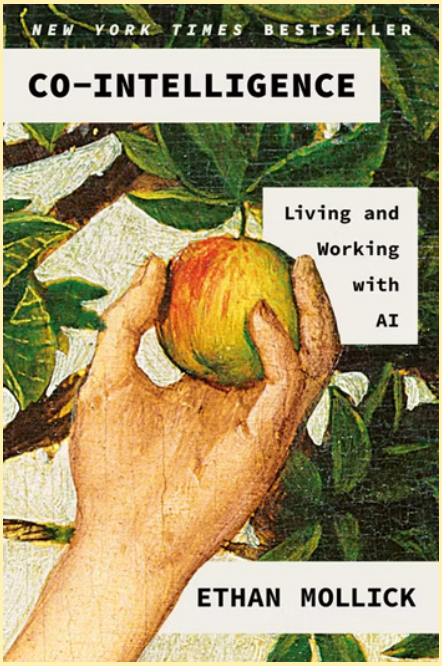
N.C. Council on Economic Education personal finance challenge. An incredibly talented group of teens who already are well on their way to a strong financial literacy future. Brad also took the time to tell the students about some new financial literacy offerings his team will soon be offering. You can watch his chat here: Treasurer Briner speaks to students at NCCEE Personal Finance State Finals at Fidelity





Recommended Reading: Co-Intelligence: Living and Working with AI

Brad's recommended reading this month is "Co-Intelligence: Living and Working with AI" by Ethan Mollick. While we talk about financial literacy each month, Brad also wants you to be equipped with the tools to learn more on your own. With the rapid rise of artificial intelligence, this book looks at how we can use AI to amplify our abilities in many areas of our life. You can borrow the book here or buy it here.







For Teens:

What are taxes and why are they important?

- A. Mandatory payments North Carolinians and business owners owe to the state government to help support the lower class.
- B. Corrupt mandatory payments that citizens are forced to give the federal government to support certain programs like schools.
- C. Mandatory payments collected from individuals and corporations by governments to pay for public services and keep the government running.

Which form reports income earned as an employee?

- A. 1099
- B. W-2
- C. W-4

Emily earns about $200 in tips (cash) each night from her serving job and doesn't report it. This is an example of:

- A. Tax avoidance
- B. Tax evasion
- C. Income tax report

Which organization is responsible for tax collection?

- A. Internal Revenue Service (IRS)
- B. Department of State Treasurer (DST)
- C. Federal Bureau of Investigation (FBI)

For Adults:

Which tax funds Social Security and Medicare?

- A. Income tax

- B. Payroll tax
- C. Corporate tax

Why might someone choose “married filing separately” instead of “married filing jointly”?

- A. All married couples are required to file separately.
- B. To receive more tax refunds.
- C. To keep tax liability and finances separate in certain situations.

Are Social Security benefits taxable?

- A. Sometimes, depending on income
- B. Never
- C. Always

Which action can legally reduce taxes?

- A. Not reporting income
- B. Increasing deduction percentages
- C. Contributing to retirement accounts

Click here for the answers.

Sources:
Taxes Definition: Types, Who Pays, and Why
Tax Definition | TaxEDU Glossary
When Is It Better to File Married Separately? The Basics
How to Calculate Taxes on Social Security Benefits | Kiplinger

---

Editor’s Note

In April, Finance Fridays was recognized with a national EIFLE award (Excellence in Financial Literacy Education). This honor is given by The Institute for Financial Literacy, and it celebrates the effective delivery of consumer financial products, services and education by acknowledging the accomplishments of those that advance financial literacy education. Treasurer Brad Briner and the Finance Friday team would like to thank all the experts, educators and business leaders who have contributed to this newsletter over the last year; and thank all of our subscribers for reading us each month! We look forward to continuing this financial literacy journey with you.

BRADFORD B. BRINER
STATE TREASURER OF NORTH CAROLINA

North Carolina State Treasurer
3200 Atlantic Avenue
Raleigh, N.C. 27604
(919) 814-4000

Contact us with questions about financial literacy or suggestions for topics.

Disclaimer: Any statement made in this Financial Literacy Newsletter ("Newsletter") is not intended as investment, financial, legal, accounting, or tax advice, and any person who subscribes to the Newsletter should consult a qualified professional to address their own specific financial situation. Any use of trade names or trademarks of third parties does not imply affiliation with, endorsement by, or association between them and NCDST. Articles submitted by guest authors for publication in the Newsletter may contain links or QR codes to provide additional references or information to the subscriber, and NCDST cannot guarantee the security or content of these links or QR codes.