



Newsletter

FEBRUARY 2019

Freddi Eberhart & Associates Inc. would like to thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We truly appreciate your referrals.

This Month:

February 14: Valentine's Day

February 18: Presidents' Day

Reminders:

- Receive all 1099s and W-2s
- Set up tax appointment
- Rebalance investment portfolios

All systems go for tax season! Filing season kicked off on Jan. 28 and tax returns are pouring into the IRS. Now that the IRS is accepting tax returns, fraudsters are actively seeking out taxpayer information to file fake returns and claim fraudulent refunds. Please review the tips for how to protect yourself from these scammers. This issue includes remedies for common financial mistakes, and tax-free benefit ideas you can offer your employees.

Call if you would like to discuss how any of this information relates to you. If you know someone that can benefit from this newsletter, feel free to send it to them.

Tips to Protect Yourself From Tax Scams

Too many people downplay the threat of identity theft because it hasn't been witnessed or experienced firsthand. This false sense of security can leave you exposed, especially during tax season. Here are some tips to keep your identity safe from scammers:

1. **Be naturally suspicious.** Understand that there are people out there trying to get your information, and others willing to pay for it. With that knowledge, be suspicious of anyone asking for personal information - especially your Social Security number (SSN). Even when a known vendor asks for your SSN, ask what they will be using it for and refuse most requests unless you deem it necessary.

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Tips to Protect Yourself From Tax Scams (Cont'd)

2. **File your tax return as soon as possible.** A popular tax scam is to file a fake tax return and deposit the refund into the thief's account, all before you get the chance to file your own return. You close the door on scammers once your tax return is filed with the IRS.
3. **Shred (don't just crumple) your documents.** Get in the habit of shredding all paperwork before it's thrown out to keep personal information from falling into the wrong hands. If you don't own a shredder, contact your bank or other local community services as they often offer free shredding services on specific days.
4. **Keep your Social Security card safe.** Only carry your Social Security card with you when it's needed for a specific purpose. Your wallet or purse is not a good permanent spot for your card. Any criminal would have a treasure trove of personal data if it were to get lost or stolen along with your driver's license and credit cards.
5. **Periodically check your credit reports.** The three major collection agencies (Experian, Equifax and TransUnion) are legally required to provide you with a free credit report each year. Take advantage of this service and review the reports. Correct any errors and use this report to monitor your accounts for any potential identity theft.

Be smart when handling your personal information. Don't get caught off guard by identity theft, especially by being careless. If you think you are a victim of a tax scam, alert the IRS right away and go to identitytheft.gov for more information.

How to Correct Common Financial Mistakes

You're working at the office, getting stuff done around the house, or hanging out with family when - wham! - a phone call, email or text alerts you that something is wrong with your finances. When a negative financial event hits, don't let it take you down. Here are some common mistakes and steps to remedy each situation:

- **You overdraw your bank account.** First, stop using the account to avoid additional overdraft fees. Next, manually balance your account by reviewing all posted transactions. Look for unexpected items and fraudulent activity. Then, call your bank to explain the situation and ask that all fees be refunded. Banks are not obligated to refund fees, but often times they will. The next steps vary based on the reason for the overdraft, but ultimately your goal is to bring your account back to a positive balance as soon as possible.

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How to Correct Common Financial Mistakes (Cont'd)

- **You miss a credit card payment.** Make as big a payment as possible as soon as you realize you missed it. Time is of the essence with late credit card payments - the longer it goes, the more serious the consequences. Then call the credit card company to discuss the missed payment. You might be able to get a refund of the late fees, and perhaps a reversal of the interest charge.
- **You forget to file a tax return.** Gather all your tax documents as soon as possible, and file the tax return even if you can't pay the taxes owed. This will stop your account from gathering additional penalties. You can then work with the IRS on a payment plan if need be. The sooner you file, the sooner the money will be in your bank account if you're due a refund. If you wait too long (three years or more), any potential refunds will be gone forever.
- **You lose your wallet.** Start by calling all of your debit card providers, then your bank and the credit card companies. Next, set up fraud alerts with the major credit reporting companies and get a new driver's license. Finally, if you think it was stolen, file a report with the police.
- **You miss an estimated tax payment.** Estimated payments are due in April, June, September and January each year. If you are required to make estimated payments and miss a due date, don't simply wait until the next due date. Pay it as soon as possible to avoid further penalties. If you have a legitimate reason for missing the payment, such as a casualty or disaster loss, you might be able to reduce your penalty.

Remember, mistakes happen. When they do, stay calm and walk through the steps to correct the situation as soon as possible.

7 Tax-Free Ideas to Bolster Your Business Benefits Package

The benefits package offered by your business is extremely important to your employees. How important? A survey performed by the Society of Human Resource Management (SHRM) found that benefits are directly tied to overall job satisfaction for 92 percent of employees. Even more importantly, 29 percent of employees cited the overall benefits package at their current employer as the top reason to look for new employment in the next 12 months.

Here are some tax-free benefit ideas to help beef up your benefits package and retain your employees:

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7 Tax-Free Ideas to Bolster Your Business Benefits Package (Cont'd)

1. **Health benefits.** According to SHRM, health insurance still remains one of the most important employee benefits. Health insurance benefits come in all shapes and sizes, so you will need to constantly evaluate plans and costs. From a tax standpoint, employers can deduct this expense, and your employees do not report health insurance premiums or employer contributions to health savings accounts (HSAs) as additional income. This includes premiums paid for the employee and qualified family members. Even better, the employee portion of premiums can still be paid in pre-tax dollars.
2. **Dependent care benefits.** Employers are able to provide employees with up to \$5,000 per year in tax-free dependent care assistance under a qualified plan. There are a few ways to provide this benefit, but a common method is to set up a flexible spending account (FSA) that both the employer and employee can use to make contributions. The employer portion is tax-free and the employee portion reduces taxable income as long as the total benefit is \$5,000 or less.
3. **Employee tuition reimbursement.** By offering tuition reimbursement, you can add another quality benefit to your package while investing in your employee's career. Up to \$5,250 of tuition expenses can be reimbursed tax-free to your employee each year.
4. **Credit card points.** This is a good benefit for outside sales and employees that travel frequently. If you have a corporate credit card program, consider passing the points on to the employee. If you reimburse employee expenses under an accountable plan, estimate the value of points your employee earns on reimbursed business purchases and include it in your annual benefits presentation. Generally the IRS considers credit card points as rebates and not taxable income.
5. **Group term life insurance.** You can generally exclude the cost of up to \$50,000 of group term life insurance from your employee's wages.
6. **Other fringe benefits.** Some examples of other nontaxable fringe benefits are employee wellness programs, onsite fitness gyms, adoption assistance, retirement planning services and employee discounts.
7. **Small gifts.** The IRS calls these "de minimis" benefits. Small-valued benefits are not included in income and can include things like the use of the company copy machine, occasional meals, small gifts and tickets to a sporting event.

With historically low unemployment levels, employees have more options than normal to look around if they aren't satisfied. Your business's benefits package is an important tool to help you keep your valued employees. While each is an additional expense to the employer, the perceived benefit by employees may far outweigh these costs.

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Major Life Changes Ahead? Read This!

Too often major life decisions have tax implications attached to them. For the unwary, this can create a fairly large and unexpected tax bill. Here are four examples of major life changes that can have complicated tax implications:

- **Changing jobs.** Whether it's a new, exciting opportunity or a result of being laid off, a job change is going to affect your tax obligation. The termination of your previous job likely adds additional taxable income in the form of accrued vacation or a severance package. Review how your former employer handles tax withholdings, especially for big payouts. Your new job also brings new tax implications with a new salary, new benefits and possibly different taxing jurisdictions if you also move to a new location.
- **Selling your house.** When selling a house or other residential property, the first thing to determine is whether it's your primary residence. If so, the IRS provides an exemption from tax for up to \$250,000 (\$500,000 for joint couples) of the gain realized from the sale of your home as long as you lived in it for at least two of the previous five years. Any gain above the exemption is subject to capital gains tax. If the property you are selling is not your primary residence, capital gains tax applies, and you also have to deal with other more complicated tax code issues.
- **Adding a second job.** The extra money you earn when adding a second job or business also brings extra taxes. How much additional tax this second income creates depends on your situation. Employment status, type of business, and how it relates to your other tax activities need to be considered. The extra income alone can send you into a higher tax bracket.
- **Deciding when to retire.** Your retirement plans and timing of retirement plan distributions play a big role in how much tax you will pay on your retirement earnings. For example, with traditional IRAs, there are early withdrawal penalties before you reach age 59½ and required minimum distributions after reaching age 70½ years old. For Social Security, collecting benefits early means less in monthly benefits and potentially a higher tax obligation if you have additional earnings. Each source of retirement income has its own set of taxation rules which can create a very complicated tax environment.

When a big life decision is on the horizon, go in with your eyes open to the potential tax implications. Carefully weigh all your options and seek help before you act.

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2019 State Business Tax Climate Rankings

The tax climate for businesses varies dramatically depending on where your business is located. State business environments are constantly shifting; some states readily enact changes made at the federal level, while others do not.

Each year the non-profit Tax Foundation organization announces a ranking of tax burdens for businesses.

The 10 best business tax states in this year's index are:

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| 1. Wyoming | 6. New Hampshire |
| 2. Alaska | 7. Oregon |
| 3. South Dakota | 8. Utah |
| 4. Florida | 9. Nevada |
| 5. Montana | 10. Indiana |

Most of the above states are favorable for businesses because they lack one of the common tax revenue sources. Some states lack corporate taxes while others have no sales tax or individual income taxes. Indiana is unique in that it has all the major tax classifications but at lower rates than most other states.

The 10 worst business tax states in this year's index are:

- | | |
|---------------|-----------------|
| 41. Vermont | 46. Arkansas |
| 42. Ohio | 47. Connecticut |
| 43. Minnesota | 48. New York |
| 44. Louisiana | 49. California |
| 45. Iowa | 50. New Jersey |

The common themes within these non-friendly business tax states are high tax rates with complex tax codes. Iowa and Arkansas dropped into the bottom 10 replacing Rhode Island and Maryland this year.

Want to learn more? The full study is available at www.taxfoundation.org.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.

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