



Newsletter

APRIL 2022

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:

Upcoming dates:

April 18

- Individual income tax returns for 2021 are due
- First quarter 2022 estimated tax payments are due

Welcome to the tax month! Please read about ideas to manage your emergency fund while in our new inflationary environment and answers to the most common questions taxpayers ask during the month.

Also, included is an article about the benefits of being a sole proprietor and tax facts of 2 year comparison.

Enjoy! Please feel free to forward the information to someone who may be interested in a topic and call with any questions you may have.

Protect Your Emergency Fund From Inflation

Most financial experts suggest keeping three to six months worth of household expenses in savings to help in case of emergency. But with record inflation, that task just got a lot harder to accomplish as virtually every safe place to put your emergency funds will not provide interest rates that keep pace with inflation. But that does not mean you cannot increase the rate of return on these funds.

Here are some ideas to reduce the impact of inflation on your emergency funds.

- **Actively monitor your savings account rate.** Earlier this year the Federal Reserve increased interest rates for the first time since 2018. In addition, the head of the Federal Reserve is suggesting there may be several of these rate increases in the next twelve months. This should increase the interest you can earn on the cash in your emergency account. ***What you need to know:*** *Not all savings accounts are created equal. When the Fed increases the interest rate, your saving account rate should also go higher...immediately. But this is not always the case. If your bank is slow to raise your savings rate, be willing to monitor and shift funds to a bank that does. Just make sure the funds are still FDIC insured and are kept at a reputable bank.*

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Protect Your Emergency Fund From Inflation (Cont'd)

- **Take a look at Series I Savings Bonds.** Series I Savings bonds are issued and backed by the U.S. government and feature two interest rate components: a fixed rate and an inflation rate. The fixed rate is set when the bond is issued and never changes during the life of the bond. The inflation rate resets semi-annually based on the Consumer Price Index. ***What you need to know:** You must hold an I bond for at least 12 months before redeeming it. And although you can redeem it after one year, you'll have to pay a penalty worth the interest of the previous three months if you redeem the bond within five years. And remember, you must be prepared to pay the penalty if you need the funds for an emergency.*
- **Creative use of Roth IRA funds in an emergency.** Roth IRAs are funded with after-tax dollars. Because of this, early removal of the initial contribution is tax and penalty free. If you dip into the earnings, however, you will not only be subject to income tax, but also may be subject to a 10% early withdrawal penalty. ***What you need to know:** Use of a Roth IRA is often a creative way to fund your emergency account while achieving higher returns with conservative investment choices, but it is not for the faint of heart. If you get this one wrong, it could cost you in taxes, penalties and lost fund value in a bear market. Prior to removing funds from any IRA, it makes sense to conduct a tax planning session.*

Please call if you have questions about how to reduce the impact of inflation on your emergency fund.

Common April Tax Questions Answered!

The individual tax deadline of April 18th (yes, this year it's April 18th!) is fast approaching. Here are answers to five common questions that taxpayers typically ask in April.

1. What happens if I don't file on time?

There's no penalty for filing a tax return after the deadline if you are set to receive a refund. However, penalties and interest are due if taxes are not paid on time or a tax extension is not requested AND you owe tax. To avoid this problem, file your taxes as soon as you can because the penalties can pile up pretty quickly. The failure-to-file penalty is 5 percent of the unpaid tax added for each month (or part of a month) that a tax return is late.

2. Can I file for an extension?

If you are not on track to complete your tax return by April 18th, you can file an extension to give you until Oct. 17, 2022 to file your tax return. Be aware that this is only an extension of time to file - not

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Common April Tax Questions Answered! (Cont'd)

an extension of time to pay taxes you owe. You still need to pay all taxes by April 18th to avoid penalties and interest. So even if you plan to file an extension, a preliminary review of your tax documents is necessary to determine whether or not you need to make a payment when the extension is filed.

3. What are my tax payment options?

You have many options to pay your income tax. You can mail a check, pay directly from a bank account with IRS Direct Pay, pay with a debit or credit card (for a fee), or apply online for an IRS payment plan. No matter how you pay your tax bill, finalize your tax payment arrangements by the end of the day on April 18th.

4. When will I get my refund?

According to the IRS, 90 percent of refunds for returns that are e-filed are processed in less than 21 days. You could end up waiting several months, however, if you paper file your return. The IRS is still processing a backlog of several million paper-filed tax returns from last year. You can use the Where's My Refund? feature on the IRS website to see the status of your refund. The refund information is usually available 24 hours after receiving confirmation that your e-filed tax return was accepted by the IRS.

5. I hear the IRS is still backlogged with last year's tax returns. Is this true?

Yes. Late changing tax legislation created tons of extra work for the IRS, all while the pandemic played havoc on staffing. During a testimony made to Congress, the Director of the IRS claims the backlog will be cleared up by the end of the year...assuming no major demands are made on their resources.

The Benefits of Being a Sole Proprietor

Many start-up businesses move from hobby status to a business when they start to make a profit. The tax entity typically used is a sole proprietorship. Taxes on this business activity type flow through your personal tax return on a Schedule C. This business form has many benefits. Here are some to consider:

- **You can hire your kids and decrease your tax bill.** As a sole proprietor, you can hire your kids and avoid paying Social Security and Medicare taxes for their work. While there are exceptions, this can generally save your small business over 7.65% on their wages.
- **Your kids can benefit, too.** Any income your kids earn that's less than \$12,950 isn't taxed at the federal

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The Benefits of Being a Sole Proprietor (Cont'd)

level. So this is a great way to build a tax-free savings account for your children. Remember, though, that their work must reflect actual activity and reasonable pay. So consider hiring your kids to do copying, act as a receptionist, provide office clean up, advertising or other reasonable activities for your business.

- **Fewer tax forms and filings.** As a sole proprietor, your business activity is reported on a Schedule C within your personal Form 1040 tax return. Other business types like an S corporation, C corporation or a partnership must file separate tax returns, which makes tax compliance a lot more complicated.
- **More control over revenue and expense.** You often have more control over the taxable income of your small business as a sole proprietor. This can provide more flexibility in determining the timing of some of your revenue and business expenses, which can be used as a great tax planning tool.
- **Hire your spouse.** If handled correctly, a spouse hired as an employee can work to your advantage as a sole proprietor. As long as the spouse is truly an employee of the business, the sole proprietor can benefit as a member of their employee's (spouse's) family benefits. This can include potential medical expense reimbursements.
- **Funding a retirement account.** You can also reduce your business' taxable income by placing some of the profits into a retirement account like an IRA. As a sole proprietor, you can readily manage your marginal tax rate by controlling the amount you wish to set aside in this pre-tax retirement account.
- **It's not all roses.** While there are many benefits of running your business as a sole proprietor, don't forget the drawbacks. One of the most significant drawbacks is the lack of personal legal protection, which is a feature in other business forms like corporations and Limited Liability Companies. Most sole proprietors address this with proper business insurance, so do not overlook the need to find coverage for yourself.

Please call if you have questions about your sole proprietor business.

Tax Facts - 2 Year Comparison

Here's a quick review of some of the tax changes you'll see from 2021 to 2022 as a result of inflation adjustments and new tax laws.

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Tax Facts - 2 Year Comparison (Cont'd)

Provision	2021	2022	+/-
Business equipment Sec. 179 expensing deduction	\$1,050,000	\$1,080,000	+\$30,000
Total purchase limit for full Sec. 179 expensing deduction	\$2,620,000	\$2,700,000	+\$80,000
Standard mileage rate: business	56¢ per mile	58.5¢ per mile	+2.5¢
Standard mileage rate: medical/moving	16¢ per mile	18¢ per mile	+2.0¢
Mileage rate: charitable activity	14¢ per mile	14¢ per mile	nc
Maximum wages subject to social security tax	\$142,800	\$147,000	+\$4,200
Social security earnings limit			
- Under full retirement age	\$18,960	\$19,560	+\$600
- Full retirement age	No limit	No limit	nc
Top estate tax rate	40%	40%	nc
Estate tax exemption	\$11,700,000	\$12,600,000	+\$900,000
Annual gift tax exclusion (per donee)	\$15,000	\$16,000	+\$1,000
Alternative minimum tax exemption			
- Single	\$73,600	\$75,900	+\$2,300
- Married, joint	\$114,600	\$118,100	+\$3,500
- Married, separate	\$57,300	\$59,050	+\$1,750

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Tax Facts - 2 Year Comparison (Cont'd)

Maximum retirement plan contributions

- IRA for those under age 50	\$6,000	\$6,000	nc
- IRA for those 50 and over	\$7,000	\$7,000	nc
- SIMPLE plan for those under age 50	\$13,500	\$14,000	+\$500
- SIMPLE plan for those 50 and over	\$16,500	\$17,000	+\$500
- 401(k) plan for those under age 50	\$19,500	\$20,500	+\$1,000
- 401(k) plan for those 50 and over	\$26,000	\$27,000	+\$1,000

HSA contribution limits

- Self only	\$3,600	\$3,650	+\$50
- Family	\$7,200	\$7,300	+\$100
- Additional for 55 & older	\$1,000	\$1,000	nc
"Kiddie tax" threshold	\$2,200	\$2,300	+\$100
"Nanny tax" threshold	\$2,200	\$2,400	+\$200
Education savings account contribution (Coverdell)	\$2,000	\$2,000	nc
American opportunity (Hope) credit limit	\$2,500	\$2,500	nc
Education loan interest deduction	\$2,500	\$2,500	nc

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Tax Facts - 2 Year Comparison (Cont'd)

Personal exemption (suspended through 2025)	Suspended	Suspended	na
FICA & self-employment tax			
Taxable wages for Social Security/Medicare	Up to \$142,800	Up to \$147,000	+\$4,200
Social Security/Medicare tax rate			
- Employees	7.65%	7.65%	nc
- Employers	7.65%	7.65%	nc
- Self-employed	15.3%	15.3%	nc
Standard deduction			
- Single	\$12,550	\$12,950	+\$400
- Joint returns & surviving spouses	\$25,100	\$25,900	+\$800
- Married filing separately	\$12,550	\$12,950	+\$400
- Head of household	\$18,800	\$19,400	+\$600
- Additional for elderly or blind (married)	\$1,350	\$1,400	+\$50
- Additional for elderly or blind (single)	\$1,700	\$1,750	+\$50

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.