Freddi Eberhart & Associates Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Newsletter

NOVEMBER 2021

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:

November 25

- Thanksgiving

Reminder

- Conduct year-end tax and financial planning

***** PPP received after 3/31/21 may be taxable for CA**

***** Tax Relief for Pass-Through Entity Owners in CA**

***** Federal Legislation Update**

Time is running out to minimize your tax obligation before the end of the year! This month's newsletter features several tax moves to consider making by December 31st to lessen the amount of money you owe the IRS.

Please call if you would like to discuss how this information could impact your situation. If you know someone who could benefit from this newsletter, feel free to send it to them.

California May Be Taxing PPP Funds Received in 2021

It was recently discovered that the California PPP loan forgiveness exclusion enacted by AB 80 is not applicable to loans received after March 31, 2021. California only conforms to the federal PPP loan forgiveness terms as last amended by the Consolidated Appropriations Act of 2021. The later enacted PPP Extension Act of 2021 results in loans being issued that are not considered "covered loans" by California guidelines and therefore do not qualify for the California exclusion.

Expenses paid with forgiven PPP loan amounts may still be fully deducted on California returns, but the taxability of the PPP loan forgiveness income needs to be accounted for in fourth quarter estimated tax payments.

~ Continued on Page 2 ~

Federal Income Tax Relief for Pass-Through Entity Owners in California

In July 2021, the Small Business Relief Act was signed into law in California. This Act essentially provides a workaround for the limitations placed on state and local tax deductions for individuals. Limited Liability Companies (LLC), S Corporations, and partnerships (also known as pass-through entities (PTE)) now have the opportunity to claim a state income tax deduction on their federal income tax return, and provide partners, shareholders, and members with a new tax credit.

PTE's may elect to pay California income taxes at the entity level, using a fixed tax rate of 9.3%. This election creates a deduction for the PTE on their federal income tax return, and provides the qualifying partner, shareholder, or member with a California tax credit equal to the tax paid at the entity level, lowering their California individual income tax liability.

Interested qualifying taxpayers may need to do some additional year-end tax planning with their advisor and should get themselves on the books now before the end of the year.

Federal Legislation

On November 5, 2021 Congress passed the $1.2 Trillion "Infrastructure Investment and Jobs Act of 2021," (H.R. 3684) and the President is expected to sign it shortly. It contained a few significant tax provisions, most of which will not be relevant to our clientele.

However, enter the "Build Back Better Act" (BBB) which is now in its 3rd iteration. There were an insufficient number of Democrats who were willing to vote in favor of this larger $1.75 Trillion social spending bill (H.R. 5376) so the vote has been postponed to the week of November 15th, after the Congressional Budget Office issues its scoring of the bill. If it passes the House, it will go to the Senate, where it is expected to be amended.

While the BBB, in its current form, does not include most of the draconian provisions initially proposed for estates and trusts, it does raise tax rates for many individuals and business entities beginning in 2022. We will be watching as details develop so we can incorporate any potential changes into planning for our clients.

In the meantime, if you have questions regarding your individual situation, please give us a call.

Tax Moves to Make Before Year-End

There are always moves you can make to reduce your taxable income. Some of these tax-saving moves, however, must be completed by December 31. Here are several to consider:

~ Continued on Page 3 ~

Tax Moves to Make Before Year-End (Cont'd)

- **Tax loss harvesting.** If you own stock in a taxable account that is not in a tax-deferred retirement plan, you can sell your underperforming stocks by December 31 and use these losses to reduce any taxable capital gains. If your net capital losses exceed your gains, you can even net up to $3,000 against other income such as wages. Losses over $3,000 can be used in future years. Just be sure you do not repurchase the same stock within 30 days, or the loss will be deferred.

- **Take a peek at your estimated 2022 income.** If you have appreciated assets that you plan on selling in the near future, estimate your 2022 taxable income and compare it to your 2021 taxable income. If your 2022 income looks like it may be significantly higher than 2021, you may be able to sell your appreciated assets in 2021 to take advantage of a lower tax rate. The opposite also holds true. If your estimated 2022 taxable income looks like it may be significantly lower than your 2021 taxable income, lower tax rates may apply if you wait to sell your assets in 2022.

- **Max out pre-tax retirement savings.** The deadline to contribute to a 401(k) plan and be able to reduce your taxable income on your 2021 tax return is December 31. See if you can earmark a little more money from each of your paychecks through the end of the year to transfer into your retirement savings accounts. For 2021, you can contribute up to $19,500 to a 401(k), plus another $6,500 if you're age 50 or older. Even better, you have until April 18, 2022, to contribute to a traditional IRA and be able to reduce your taxable income on your 2021 tax return.

- **Make cash charitable contributions.** If you're like 90% of all taxpayers, you get no tax benefit from charitable contributions because you don't itemize your personal deductions. On your 2021 tax return, however, you may contribute up to $300 in cash to a qualified charity and deduct the amount whether or not you itemize your deductions. Married taxpayers who file jointly may contribute $600. You can make your contribution by check, credit card, or debit card. Remember that this above-the-line deduction is for cash contributions only. It does not apply to non-cash contributions.

- **Bunch deductions so you can itemize.** Are your personal deductions near the amount of the standard deduction for 2021: $12,550 for singles, $18,800 for head of household and $25,100 for married filing jointly? If so, consider bunching your personal deductions into 2021 so you can itemize this year. For most, the easiest way is to bunch two years of charitable contributions into a single year. These can include gifts of appreciated stock where you get to deduct the fair market value without paying capital gains tax.

~ Continued on Page 4 ~

Year-End Tax Planning Ideas for Your Business

Here are some ideas to lower your business taxes, get organized, and to prepare for filing your 2021 tax return.

As 2021 winds down, here are some ideas to consider in order to help manage your small business and prepare for filing your upcoming tax return.

- Identify all vendors who require a 1099-MISC and a 1099-NEC. Obtain tax identification numbers (TIN) for each of these vendors.
- Determine if you qualify for the Paycheck Protection Program (PPP) safe harbor threshold that allows you to deduct certain 2020 expenses on your 2021 tax return.
- Consider accelerating income or deferring earnings, based on profit projections.
- Section 179, or bonus depreciation expensing versus traditional depreciation, is a great planning tool. If using Section 179, the qualified assets must be placed in service prior to year-end.
- Business meals are 100% deductible in 2021 if certain qualifications are met. Retain the necessary receipts and documentation that note when the meal took place, who attended and the business purpose of the meal on each receipt.
- Consider any last-minute deductible charitable giving including long-term capital gain stocks.
- Review your inventory for proper counts and remove obsolete or worthless products. Keep track of the obsolete and worthless amounts for a potential tax deduction.
- Set up separate business bank accounts. Co-mingling business and personal expenses in one account is not recommended.
- Create expense reports. Having expense reports with supporting invoices will help substantiate your tax deductions in the event of an audit.
- Organize your records by major categories of income, expenses and fixed assets purchased to make tax return filing easier.

~ Continued on Page 5 ~

Year-End Planning Ideas for Your Business (Cont'd)

- Review your receivables. Focus on collection activities and review your uncollectable accounts for possible write-offs.
- Make your 2021 fourth-quarter estimated tax payment by January 18, 2022.

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.