



# Newsletter

SEPTEMBER 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:**

#### **September 15**

- Filing deadline for 2020 calendar-year S corporation and partnership tax returns on extension
- 3<sup>rd</sup> quarter 2021 estimated taxes are due (individuals, corporation, trusts & estates)

#### **October 15**

- Filing deadline for extended 2020 individual and C corporation tax returns

With a little over four months remaining until you can begin filing your 2021 tax return, now's also the time to kick your tax planning into high gear. Also read about recently passed CA AB 150 and how it will impact the way we pay state income taxes for the remainder of the 2021 year; how to give your business a financial check-up, and becoming aware that inflation is with us and what you can do about it.

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 AB 150 Provides SALT Cap Workaround for Passthrough Entities (S Corps, Partnerships & Multi-member LLC's)**

The 2017 tax act (TCJA) imposed a \$10,000 limitation on individual itemized deductions for state and local taxes ("SALT"). This was particularly unfavorable to residents of states with high income tax rates. In an attempt to remedy this for business owners, AB 150 provides for an election for passthrough entities to pay tax to the state on their income at the entity level which would allow that business to deduct the full amount of that tax on their federal income tax return. The owners of these entities would correspondingly be allowed a tax credit on their California individual income tax returns.

This is effective for tax years beginning in 2021. The logistics are yet to be worked out, but we will be in touch with our passthrough entity clients as they develop.

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## Time to Schedule Your Tax Planning Session

Now is the time to schedule a tax planning appointment. If you are on the fence, here are some things to consider:

- **It can make a difference.** This is especially true if you have a major event that occurs during the year. For example:  
  
Even in uneventful years, external forces like new tax laws can be managed if planned for in advance.
  - Selling a house? You can avoid taxes if primary residence requirements are met.
  - Starting a business? Choosing the correct entity can lower your taxes every year!
  - Getting ready to retire? Properly balancing the different revenue streams (part-time wages, Social Security benefits, IRA distributions and more) has a huge impact on your tax liability.
- **Put yourself in control.** Timing is important when it comes to minimizing taxes, and the timing is often in your control. For instance, bundling multiple years of charitable contributions into one year can create an opportunity to itemize deductions. Plus holding investments for longer than one year to get a lower tax rate, and making efficient retirement withdrawals are other examples of prudent tax strategies that you control.
- **There are tax planning opportunities for every level of income.** There are tax strategies to be implemented at all income levels, not just those at the top of the tax bracket. Tax deductions are available for student loan interest, IRA contributions and others even if you claim the standard deduction. Certain tax credits (called refundable credits) will increase your refund even if you don't owe taxes. Missing any of these tax breaks can unnecessarily increase your taxes.
- **There may still be COVID tax breaks.** While it's true that many one-time tax breaks were offered for only the 2020 tax year, there are still plenty of COVID tax breaks available in 2021. Some of these tax breaks include an expanded child tax credit, an increased child and dependent care credit, the ability to roll forward unused funds in your Flexible Spending Account and charitable deductions that are available to all taxpayers, even if you don't itemize your deductions.
- **You have help.** Tax planning is often as simple as looking for ways to reduce taxable income, delay a tax bill, increase tax deductions, and take advantage of all available tax credits. The best place to start is to bolster your level of tax knowledge by picking up the phone and asking for assistance.

Thankfully, it's not too late to get on track for 2021. If you haven't scheduled a tax planning session, now is a great time to do so.

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## Give Your Business an End-of-Summer Check-Up

As summer winds down, your business's financial statements may be due for a quick check-up. Here are several review suggestions to help determine the health of your business prior to year end.

- **Balance sheet reconciliations.** Reconcile each asset and liability account every quarter. A well-supported balance sheet can guide decisions about cash reserves, debt financing, inventory management, receivables, payables, and property. Regular monitoring can highlight vulnerabilities, providing time for corrective action.
- **Debt service coverage.** Do you have enough cash to adequately handle principal and interest payments? Calculate your cash flow to ensure you can handle both current and future monthly loan payments.
- **Projected revenue.** Take a look at your income statements and see how your revenue has performed so far this year versus what you thought your revenue was going to be. If revenue varies from what you expect, get with your sales and marketing team to pinpoint what has gone better, or worse, than expected.
- **Projected expenses.** Put a stop to disappearing cash by conducting a variance analysis of your expenses. What did you expect to spend so far in 2021 on salaries and wages compared to what you actually paid your employees? What about other big expenses like rent or insurance? Take the amount of money actually spent so far in 2021 in each of your major expense accounts and compare it to your spending forecast. Then create an updated forecast for the balance of the year.

A review of your financial statements now will help you be prepared if you need to navigate an obstacle or capitalize on potential opportunities to expand your business.

Please call if you have any questions on how to dig deeper in your analysis of your business's financial statements.

## It's BACK! Inflation is Among Us

*How to shield your money from inflation*

Recent high inflation rates are driving up the price for almost everything and eroding the value of your money. With varying opinions on the potential duration of the current inflation surge, it's important to understand the causes and how you can protect your money.

### **Possible causes of this inflation**

While the root causes of inflation are not always easy to identify, the premise is simple – prices are going up

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## It's BACK! Inflation is Among Us (Cont'd)

for goods and services. This is often because demand is higher than supply. Here are some of the basic drivers of today's inflation.

- **The demand-pull situation.** Demand for a product increases but the supply remains the same. Think of a vendor selling ponchos at a state fair. If it rains, demand is going to spike and fair-goers are willing to pay up to keep dry. This situation is rampant during the pandemic, as we all see runs on things like toilet paper and hand sanitizer. And now we are seeing pent-up demand being released, as some of the pandemic restrictions are eased. An example of this is popular vacation locations being all booked in advance.
- **The cost-push situation.** Demand stays constant but supply is reduced. An example of this is a lower-yield crop season when a major drought hits a region. Consumers still want their dinner salads, but lettuce is sparse. So retailers charge more to cover their increased costs. Or when paper mills switched production to handle higher toilet paper demand, pulp used for paper and packaging had supply reductions creating a shortage which increased their prices.
- **Factoring in the money supply.** The more money there is available to spend (high money supply), the more the demand on all goods and services goes up. This is being manifested in wage increases as employers are having a hard time filling jobs and is also the result of many of the government spending programs during the pandemic.

### Ideas to protect yourself during high inflation

- **Alternative savings that is NOT cash.** The value of your money sitting in your wallet or in low interest bank accounts is shrinking before your eyes. The past year has seen the highest inflation rates in the last decade at 5.4%, according to the Consumer Price Index (CPI). That means if your savings account is earning 0.6%, you've lost 4.8% in purchasing power over the last 12 months. Get your money to work for you by considering:
  - Low risk, dividend-paying stocks
  - CDs, bonds and other investments with various maturities to prepare for higher rates
  - Direct lending vehicles through vetted, respected facilitators
  - Investing directly in property, small businesses or other tangible assets
  - Invest in yourself to learn a new trade or skill

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## It's BACK! Inflation is among us! (Cont'd)

- **Lock in fixed rates on debt.** Inflation can be your friend if you have a low interest, fixed-rate loan. For example, inflation will tend to increase the value of your house over time, yet your monthly payment will remain the same. So borrowing money at a low fixed interest rate, while the underlying property value increases with inflation, can be a strategy to consider.
- **Delay large expenditures.** Do your part to reduce demand by postponing large purchases. Consider delaying the purchase of a new car, adding to your home or taking an overseas trip until demand flattens and prices come back to a normal rate.

It's impossible to avoid the effects of high inflation altogether, but with some smart investing and the will-power to temporarily curb spending, you can reduce inflation's impact on your personal bottom line.

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.*