



# Newsletter

NOVEMBER 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:**

**November 24**

- Thanksgiving

### **Reminder**

- Conduct year-end tax and financial planning

Social Security recipients got some great news about their benefits. Check out this month's newsletter to learn more about the cost-of-living increase for 2023.

Also read about several tax court cases and what they might mean for your situation.

Also, some latest news from our team.

Please feel free to forward this newsletter to someone who may be interested in a topic and call with any questions you may have.

## **New Members of Our Team**

**We are pleased to announce the addition of 2 new professional staff members to our team!**

**Cameron Landers, CPA and Jacob Glaspy, MAcc have joined our firm and look forward to assisting us in providing top-notch service to our clients.**

**Welcome, Cameron and Jacob!**

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## Social Security to See Significant Adjustment for 2023

### Your 2023 Social Security Benefits

Find out how your benefits have changed

### Average Retirement Benefits

#### Starting January 2023

- All workers in 2022: \$1,681/mo
- All workers in 2023: \$1,827/mo (+\$146)
- The 2023 maximum Social Security retirement benefits for a worker retiring at full retirement age: \$3,627/mo

An 8.7% cost of living increase for Social Security retirement benefits and SSI payments begins with December 2022 benefits (payable in January 2023).

Increase your Social Security retirement benefits by 5 to 8% per year when you delay applying until you're age 70.

### Social Security Revenues & Expenditures

Revenue Sources = \$1.09 trillion

- 3.5% - Taxation of benefits
- 6.4% - Interest
- 90.1% - Payroll taxes

Expenditures = \$1.14 trillion

- 0.6% - Administrative expenses
- 0.4% - Railroad Retirement financial interchange
- 99.0% - Benefit payments

*SOURCE: 2022 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and*

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## Social Security to See Significant Adjustment for 2023 (Cont'd)

*Disability Insurance Trust Funds, Table II.B1.*

### 2023 Social Security & Medicare Tax Rates

If you work for someone else...

- Your employer pays **7.65%**
- You pay **7.65%**

If you're self-employed...

- You pay **15.3%**

*NOTE: The above tax rates are a combination of 6.2% for Social Security and 1.45% for Medicare. There is also a 0.9% Medicare wages surtax for those with wages above \$200,000 single (\$250,000 joint filers) that is not reflected in these figures.*

Item	2023	2022	Change
Maximum amount you may pay in Social Security taxes	<b>\$9,932.40</b>	\$9,114.00	+ \$818.40
Maximum earnings amount Social Security will tax at 6.2%	<b>\$160,200.00</b>	\$147,000.00	+ \$13,200.00

### Here's how you qualify for retirement benefits

When you work and pay Social Security taxes, you earn **credits** toward benefits. The number of credits you need to earn retirement benefits depends on when you were born.

- If you were born in **1929** or later, you need **40 credits** (10 years of work) to receive retirement benefits
- You receive one credit for each **\$1,640** of earnings in **2023**
- **4 credits** maximum per year

**Did you know you can check your benefits status before you retire?**

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## Social Security to See Significant Adjustment for 2023 (Cont'd)

- You can check online by creating a *my* Social Security account on the SSA website. If you don't have an account, you should be mailed a paper Social Security statement 3 months before your 61st birthday.
- It shows your year-by-year earnings, and estimates of retirement, survivors and disability benefits you and your family may be able to receive now and in the future.
- If it doesn't show earnings from a state or local government employer, contact them. The work may not be covered within Social Security.

*Sources: SSA.gov*

## Tax Court Corner

Here's a roundup of several recent tax court cases and what they mean for you.

### Thou Shalt Not Commingle Funds

*(Vorreyer, TC Memo 2022-97, 9/21/22)*

Don't let sloppy record keeping prevent you from deducting legitimate business expenses. The Tax Court agreed with the IRS that business expenses must first be deducted on that business's tax return before flowing to the owner's tax return.

**Facts:** A married couple, the sole shareholders of an S corporation, operated a family farm in Illinois. In 2012 they paid the farm's utility bills of \$21,000 and property taxes of \$109,000 from their personal funds, then deducted these payments on their individual Form 1040 tax return as business expenses.

Even though the utility and property tax bills were legitimate business expenses, the deduction was disallowed because the expenses should have first been deducted on the farm's S corporation tax return, then flowed through to the shareholder's individual tax return.

**Tax Tip:** To pay an expense on behalf of your business, first make a capital contribution to your business, then have your business pay the expense. Then include this expense on your business's tax return.

### Adding Tax Insult to Injury

*(Dern TC Memo 2022-90, 8/30/22)*

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## Tax Court Corner (Cont'd)

Payments received to settle a physical injury or illness lawsuit are generally considered non-taxable income. But you better be sure that the lawsuit you file is actually to compensate for a physical injury or illness, and not something else.

**Facts:** Thomas Dern, a sales representative for a paint products company in California, was hospitalized for acute gastrointestinal bleeding and a subsequent heart attack. When the company fired him because he could no longer do his job, he sued for wrongful termination. The parties eventually reached a settlement.

Dern argued in Tax Court that his illness led to his firing, and therefore the settlement should be classified as non-taxable income. The payment he received, however, was to settle a discrimination lawsuit and not a physical injury. The settlement therefore did not qualify to be non-taxable income.

**Tax Tip:** Pay attention to the tax consequences of settlement payments so you don't get surprised with an unexpected tax bill.

## You're Stuck With the Standard Deduction

**Facts:** Shawn Salter, a resident of Arizona, requested and received a distribution of \$37,000 from his retirement plan after being laid off from his job in 2013. Salter failed to file a tax return for 2013, so the IRS created a substitute tax return for him using the standard deduction of \$6,500 for a single taxpayer. The IRS also assessed an early withdrawal penalty of 10% on the distribution.

Salter, arguing that the distribution was to pay for medical expenses which aren't subject to the 10% early withdrawal penalty, eventually did file a 2013 tax return with \$25,000 of itemized medical expenses. The Tax Court disallowed the \$25,000 of itemized deductions, stating that once a substitute return is created by the IRS using the standard deduction, the taxpayer can no longer claim itemized deductions for that year.

**Tax Tip:** Try to avoid a situation where the IRS files a substitute tax return on your behalf. Once this happens, you have no choice but to use the standard deduction for that tax year.

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.*