



Newsletter

JUNE 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:

June 15

- Q2 ESTIMATED TAXES DUE
- 2022 PASS-THROUGH ENTITY TAX DUE

June 19

- Father's Day

With your 2021 tax return now filed, the last thing you may want to do is start thinking about your 2022 tax return! The best way to lower your tax bill for next year, however, is to start looking for tax cutting strategies as soon as possible.

In this month's newsletter you'll find a quick reminder to pay your Pass-Through Entity Tax. Also, read about some tax planning tips to help you lower your 2022 taxes, tax implications if you have a side hustle, and how to make your child's summer break a tax break!

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

REMINDER: Pass-Through Entities Act Now! - Don't Miss This Tax Savings Opportunity

As you may recall, in 2021 California enacted Assembly Bill 150 (AB 150), which effectively provided a workaround for the limitations previously placed on the State and Local Tax (SALT) deduction for individuals. AB 150 allowed qualified entities, that is entities taxed as partnerships or S corporations, to elect to pay an additional Pass-Through Entity Tax (PET) to CA. This provides the owners of the qualified entity with a credit for their share of the tax paid.

If you would like to make this election for 2022, you must act soon! The **deadline for the election is June 15, 2022.**

~ Continued on Page 2 ~



Newsletter

JUNE 2022 - PAGE 2

Pass-Through Entities Act Now! - Don't Miss This Tax Savings Opportunity (Cont'd)

To make the election, the qualifying entity will need to make a payment equal to the higher of 50% of the PET paid for 2021, if applicable, or \$1,000. Again, this payment must be made by 6/15/22. If this date is missed, the election **cannot** be made for the current taxable year. Payment must be remitted using the applicable payment voucher, or online through the Franchise Tax Board portal. If you have any questions or would like to discuss this potential tax saving opportunity with us, please give us a call!

Start Your Tax Planning NOW!

Keeping your taxes as low as possible requires paying attention to your financial situation throughout the year. Now that you've filed your 2021 tax return, here are some tips for getting a head start on tax planning for your 2022 return:

- **Check your paycheck withholdings.** Now is a good time to check your tax withholdings to make sure you haven't been paying too much or too little. The IRS has an online tool that will help you calculate how much your current withholdings match what your final tax bill will be. Visit <https://apps.irs.gov/app/tax-withholding-estimator>.

***Action step:** To change how much is withheld from your paycheck in taxes, fill out a new Form W-4 and give it to your employer.*

- **Defer earnings.** You could potentially cut your tax liability by deferring your 2022 income to a future year via contributions to a retirement account. For 2022, the 401(k) contribution limit is \$20,500 (\$27,000 if 50 or older); \$6,000 for both a traditional and Roth IRA (\$7,000 if 50 and older); or \$14,000 for a SIMPLE IRA (\$17,000 if 50 and older).

***Action step:** Consider an automatic transfer from either your paycheck or checking account to your retirement account so you won't have to think about manually making a transfer each month.*

- **Plan withdrawals from retirement accounts to be tax efficient.** Your retirement accounts could span multiple account types, such as traditional retirement accounts, Roth accounts, and taxable accounts like brokerage or savings accounts. Because of this you should plan for your withdrawals to be as tax efficient as possible.

***Action step:** One way to structure withdrawals is to pull from taxable accounts first, and leave Roth account withdrawals for last. Another approach would be to structure proportional withdrawals from all retirement accounts that would lead to a more predictable tax bill each year.*

~ Continued on Page 3 ~



Newsletter

JUNE 2022 - PAGE 3

Start Your Tax Planning NOW! (Cont'd)

- **Net capital gains with capital losses.** If you have appreciated investments you're thinking about selling, take a look through the rest of your portfolio to see if you have other assets that you could sell for a loss and use to offset your gains. Using the tax strategy of tax-loss harvesting, you may be able to take advantage of stocks that have underperformed.

***Action step:** Make an appointment with your broker to look over your portfolio to see if there are any securities you may want to sell by the end of 2022.*

Tax planning can potentially result in a lower bill from the IRS if you start taking action now. Please call if you have questions about your tax situation for 2022.

Hustling For Extra Income

Don't forget the taxman!

From supplementing their current income to replacing income that was lost because of layoffs, the pandemic or other reasons, many people have started side hustles over the past 2 years to help make ends meet.

If you currently have a side hustle, don't forget about the tax implications from earning extra money. Here are several ideas to help you stay on top of your side hustle's taxes:

- **All income must be reported.** Income from side hustles can come from a variety of sources. Regardless of where the money comes from or how much it is, it is supposed to be reported on your tax return. If you do work for a company, expect to receive a 1099-NEC or 1099-MISC if you are an independent contractor, or a W-2 if you're an employee.
- **Keep good records and save receipts.** Being organized and having good records will do two things: ensure accurate tax reporting and provide backup in the event of an audit. Log each receipt of income and each expense. Save copies of receipts in an organized fashion for easy access. There are multiple programs and apps to help with this, but a simple spreadsheet may be all that you need.
- **Make estimated payments.** If you are running a profitable side business, you will owe additional taxes. In addition to income tax, you might owe self-employment tax as well. Federal quarterly estimated tax payments are required if you will owe more than \$1,000 in taxes for 2022. Even if you think you will owe less than that, it's a good idea to set a percentage of your income aside for taxes to avoid a surprise when you file your 2022 return.
- **Don't fall into the hobby trap.** You won't be allowed to deduct any expenses if the IRS determines that your side hustle is a hobby instead of a business. To make sure your side hustle is deemed a

~ Continued on Page 4 ~



Newsletter

JUNE 2022 - PAGE 4

Hustling for Extra Income (Cont'd)

business by the IRS, you should show a profit during at least three of the previous five years.

- **Get professional tax help.** There are many other tax factors that can arise from side income such as business entity selection, sales taxes, state taxes, and more. Please call to set up a time to work through your situation and determine the best course of action for your side hustle.

Make Your Child's Summer Break a Tax Break

As a busy working parent, you may be on the lookout for activities that are available for your kids this summer. There may be a solution that's also a tax break: Summer camp!

Using the Child and Dependent Care Credit, you can be reimbursed for part of the cost of enrolling your child in a day camp this summer.

Am I eligible?

1. You, *and* your spouse if you are married, must both be working.
2. Your child must be under age 13, your legal dependent, and live in your residence for more than half the year.

Tip: If your spouse doesn't work but is either a full-time student, or is disabled and incapable of self-care, you can still qualify for the credit.

How much can I save?

For 2022, you can claim a maximum credit of \$1,050 on up to \$3,000 in expenses for one child, or \$2,100 on up to \$6,000 in expenses for two or more children.

What kind of camps?

The only rule is: *no overnight camps.*

The credit is designed to help working people care for their kids during the work day, so summer camps where kids stay overnight aren't eligible for this credit.

Other than that, it doesn't matter what kind of camp: soccer camp, chess camp, summer school or even day care. All of these are eligible expenses for this credit.

~ Continued on Page 5 ~



Newsletter

JUNE 2022 - PAGE 5

Make Your Child's Summer Break a Tax Break (Cont'd)

Other ways to use this credit

While summer day camp costs are a common way to use this credit, any cost to provide care for your children while you are working may be eligible.

For example, you can use this credit to pay a qualified day care center, a housekeeper or a babysitter to take care of your child while you are working. You can even pay a relative to care for your child and claim the credit for that expense, as long as the relative isn't your dependent, minor child or spouse.

This is just one of many possible tax breaks related to children and dependents. Please call if you have questions about this credit, or if you'd like to discuss any other tax savings ideas.

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.