



Newsletter

AUGUST 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 6

- Labor Day

Summertime means the 2020 tax filing season is firmly in the rearview mirror for millions of Americans!

This year, summer also means more money for you thanks to the child tax credit advance payments.

Also read about large retirement account balances and the effect on social security benefits, and how to protect your privacy from companies trying to pry into your online life.

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.

Get Your Child Tax Credit Payments NOW!

The first advance payment from the newly expanded child tax credit was recently sent out by the IRS. Payments are scheduled to be made on the 15th of each month through December.

Here's what you need to know about the child tax credit and the advance payments.

Background

For the 2021 tax year, an expanded child tax credit reduces your tax bill by \$3,600 if you have a qualifying child that's age 5 or under, or by \$3,000 if you have a qualifying child from age 6 to 17.

If the total amount of the child tax credit for your family exceeds the total taxes you owe, you'll receive the amount of the credit as a refund.

Child tax credit advance payments

Instead of waiting to file your tax return to receive the entire amount of your child tax credit, the IRS is directed by Congress to send 50% of the credit to you in six monthly payments beginning in July 2021.

For example, say you have three kids, ages 10, 12 and 16. Also assume your income is not too high and your children meet the IRS definition of a qualifying child. Instead of waiting until 2022 when you file

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Get Your Child Tax Credit Payments NOW! (Cont'd)

your 2021 tax return to receive the entire \$9,000 child tax credit, you can get paid half of the child tax credit amount, or \$4,500, in 2021.

The advance payments began July 15 and continue for six months until December 15. The family in this example would receive six payments of \$750 starting July 15, for a total of \$4,500.

What you need to know

The monthly payments are automatic. You'll automatically receive advance payments if:

- You filed a 2019 or 2020 tax return and claimed the credit, OR
- You gave information in 2020 to receive the Economic Impact Payment using the IRS non-filer tool, AND
- The IRS thinks you are eligible, AND you did not opt-out of the early payments.

Register with the IRS. If you didn't file a 2019 or 2020 tax return but are otherwise eligible for the child tax credit, you'll need to register with the IRS to receive the child tax credit. Visit the IRS website to find out if you need to register.

Consider if you should opt out of the advance payments. Getting half of your child tax credit ahead of time may not be the right move for everyone. For example, if your 2021 income ends up higher than expected, you may need to pay back the advance payments when you file your tax return. To opt out, visit the IRS's child tax credit update portal.

Big Tech Knows Who You Are!

Tips for enhancing your digital privacy

Companies are following your every move. When you have a cell phone, they are tracking what apps you use, where you go, who you talk to and more! Other smart devices listen to your conversations in your home, keep track of what you view on your TV, and report where you visit and what routes you take to get there. Even worse, the more you share the greater the chance a hacker gets this information.

Consider these tips to more actively protect yourself and your information.

The power of the opt out

Apple recently introduced an opt out feature on their iPhones. Historically, when you download a new app onto an iPhone, you have to manually opt out of sharing your device's data. Now when you

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Big Tech Knows Who You Are! (Cont'd)

download a new app on your iPhone, you'll be asked whether you want to opt in and allow the app to have access to your information.

So if you are an iPhone user, start with the opt out and then deliberately select who you wish to give access to your information. And opt out does not have to be global. For instance, a direction function needs your location when you use it. But it does not need to be turned on all the time.

Actions:

- *Leave opt-out as default on iPhones and set default to opt-out on other mobile phone brands.*
- *Review all apps and turn off tracking and data sharing.*
- *Actively turn off your phone if you do not wish to be tracked.*
- *Review all smart devices and select your opt out options. Include TVs and personal assistants in your review.*

Protect your web browsing

Companies love to keep tabs on your browsing habits. And it is not just limited to their own sites. They might spy on ALL your activity. They see every website you visit, monitor all your clicks, and track all social media likes and videos you view. They then use this information to determine what you see and read. In short, they control your world view, both in content and in what ads you see.

Actions:

- *Actively use ad blockers such as Adblock and uBlock.*
- *Turn off cookies and periodically empty your cache.*
- *Avoid downloading any and all extensions unless absolutely required.*

Use best data protection practices

As the internet and smart devices evolve, so do the thieves that wish to steal your identity and your financial resources. So keep up-to-date on best data protection practices.

Actions:

- *Vary passwords and user IDs. Keep track of them outside of your computer.*

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Big Tech Knows Who You Are! (Cont'd)

- *Keep operating systems and software up-to-date.*
- *Encrypt your emails and computer hard drive.*
- *Keep banking information off your cell phone.*
- *Back up all your devices remotely.*
- *Use current antivirus software.*
- *Monitor your credit reports for any suspicious activity.*
- *Confirm before opening suspicious emails or attachments.*

Most importantly, stay informed. In the end, the burden of protecting your data always falls on you.

Large Retirement Account Balances Can Cause Social Security Tax Problems

The Tax Torpedo

When you reach age 72, the trigger requiring distributions from qualified retirement accounts is pulled. This annual Required Minimum Distribution (RMD) applies to Traditional IRAs, SEP IRAs, SIMPLE IRAs, 401(k), 403(b) and other defined contribution plans. Amounts not distributed on a timely basis could be subject to a 50% penalty. Thankfully, the RMD rules do not apply to Roth IRAs.

The RMD rules are established to ensure the deferred tax benefit for certain retirement accounts does not go indefinitely into the future. In other words, the IRS now wants their cut of your tax-deferred savings accounts. The amount you must take out each year is based upon your age, your spouse's age and your filing status.

The Tax Torpedo

The Tax Torpedo refers to the surprising event of having your Social Security Income taxed. Depending on your income and filing status, up to 85% of your Social Security Benefit could be subject to income tax.

RMD causes Tax Torpedo

If you continue to wait to start taking money out of your retirement accounts, the balance in your accounts may be very high when you reach age 72. These higher balances mean a higher annual

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Large Retirement Account Balances Can Cause Social Security Tax Problems (Cont'd)

withdrawal amount. If your required retirement plan distribution is large enough it may put you into a higher marginal tax bracket as well as trigger taxes on your Social Security.

Some Tips

- **Plan withdrawals.** Once you hit age 59 ½ you may withdraw money from qualified tax-deferred retirement accounts without experiencing an early withdrawal penalty. To reduce the tax risk on your Social Security, manage annual disbursements from your retirement account(s) to be more tax efficient when you reach age 72.
- **Starting Social Security.** You may begin full Social Security Benefits after you reach your minimum retirement age. However, your benefit amount can increase if you delay your start date up until age 70. Consider this as part of your plan to manage a potential Tax Torpedo.
- **See an advisor.** There are many moving parts in planning for retirement. These include Social Security Benefits, pension plans, savings, and retirement accounts. Ask for help to create the proper plan for you and your family. One element of the plan should include being tax efficient.

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.