



Newsletter

AUGUST 2019

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:

September 2: Labor Day

Summer is starting to wind down and the kids will soon be headed back to school. Now is a great time to review if you've had, or will have, any special taxable events this year. The first article highlights five taxable items that come as a surprise to many people. This month's newsletter also includes ways to manage the burden of student loan debt, cash flow strategies that can save your business, and no excuses; time to lower your tax bill.

Call if you would like to discuss how this information relates to you. If you know someone who can benefit from this newsletter, feel free to send it to them

I Owe Tax on That?

5-Surprising Taxable Items

Wages and self-employment earnings are taxable, but what about the random cash or financial benefits you receive through other means? If something of value changes hands, you can bet the IRS considers a way to tax it. Here are five taxable items that might surprise you:

1. **Scholarships and financial aid.** Applying for scholarships and financial aid are top priorities for parents of college-bound children. But be careful - if any part of the award your child receives goes toward anything except tuition, it might be taxable. This could include room, board, books, travel expenses or aid received in exchange for work (e.g., tutoring or research). **Tip:** *When receiving an award, review the details to determine if any part of it is taxable. Don't forget to review state rules as well. While most scholarships and aid are tax-free, no one needs a tax surprise.*
2. **Unemployment compensation.** Unfortunately the IRS doesn't give you a break on the taxes for unemployment income. Unemployment benefits you receive are taxable. **Tip:** *If you are collecting unemployment, you can either have taxes withheld and receive the net amount or make estimated payments to cover the tax liability.*

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I Owe Tax on That? (Cont'd)

5-Surprising Taxable Items

3. **Gambling winnings.** Hooray! You hit the trifecta for the Kentucky Derby. But guess what? Technically, all gambling winnings are taxable, including casino games, lottery tickets and sports betting. Thankfully, the IRS allows you to deduct your gambling losses (to the extent of winnings) as an itemized deduction, so keep good records. **Tip:** *Know when the gambling establishment is required to report your winnings. It varies by type of betting. For instance, the filing threshold for winnings from fantasy sports betting and horse racing is \$600, while slot machines and bingo are typically \$1,200. But beware, the gambling facility and state requirements may lower the limit*
4. **Crowdfunding.** A popular method to raise money for new ventures or to support a special cause is crowdfunding through websites. Whether or not the funds are taxable depends on two things: your intent for the funds and what the giver receives in return. Generally, funds used for a business purpose are taxable and funds raised to cover a life event (e.g., special causes or medical assistance) are considered a gift and not taxable to the recipient. **Tip:** *Prior to using these online tools to raise money, review the terms and conditions and ask for a tax review of what you are doing. If you need to account for taxes, reserve some of what you raise for this purpose.*
5. **Cryptocurrency.** Cryptocurrencies like Bitcoin are considered property by the IRS. So if you use cryptocurrency, you must keep track of the original cost of the coin and its value when you use it. This information is needed so the tax on your gain or loss can be properly calculated. Remember, the tax rate on property can vary if you own the cryptocurrency more than a year, so record all dates. **Tip:** *For those considering replacing cash with things like Bitcoin, you need to understand the gain or loss complications. For this reason, many people using cryptocurrency do so for speculative investment purposes.*

When in doubt, it's a good idea to keep accurate records so your tax liability can be correctly calculated and you don't get stuck paying more than what's required. Please call if you have any questions regarding your unique situation.

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Smart Tactics to Manage Student Debt

According to the Federal Reserve, U.S. student loan debt is now \$1.5 trillion with more than 44 million borrowers. Only mortgage debt currently has bigger numbers among types of consumer debt. Even worse, more than 10 percent of these loans are past due. Here are some tactics to help make student debt easier to manage:

- **Know the loan terms.** Not all student debt is created equal. Understanding the terms of all your student loans is important. With this knowledge, select the correct loan option and know which loan to pay first. Things you should know about each loan include: **Suggestion:** *Create a spreadsheet with a student loan in each column. Then note the terms under each loan. This will create a strong visual of your situation and show you which loans are most important.*
 - The interest rate
 - The term of the loan
 - Amount of any up front fees
 - Pre-payment penalties (if any)
 - When interest and payments start
 - Payment amounts
 - Payment flexibility
 - How the interest is calculated
- **Avoid accruing interest.** Some student loans accrue interest while you are in school. With the compounding of this interest, your student loan amount continues to grow with each passing year before repayment begins. Banks love this - you should not. **Suggestion:** *Figure out how to make some or all of the interest payments while in school. This will not only lock the amount you owe, it will reduce the amount of overall loan payments.*

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Smart Tactics to Manage Student Debt (Cont'd)

- **Pay a little extra in the early days.** The math of loans benefits banks in the early years of the repayment period. This is because the vast majority of interest is paid in the first years of repayment. By the time you get to the last year of repayment, payments are primarily the principal balance and interest is nil. **Suggestion:** *Pay extra every month as soon as payments start. While this seems impossible as you enter the workforce, even \$25 extra per month can dramatically reduce the amount of total payments you make over the life of your loan. For example, a \$25 extra payment on a 10-year \$50,000 student loan with 5 percent interest would cut six months off the loan, save \$834 in interest, AND save \$3,180 in future loan payments!*
- **Make small cuts elsewhere.** Having a hard time finding a few extra dollars to make extra payments? Consider observing and then changing your spending habits. **Suggestion:** *Purchase one less latte a week. Drop one monthly service from a bill. Eat in more often. Then use these savings as a bonus payment on your student loan principal.*

While student debt is often an unavoidable outcome of getting a college education, it can be minimized if actively managed. Small changes can yield results if planned for in advance

Cash Flow Concepts That Can Save Your Business

A sad and often repeated truth is that half of all new businesses fail within the first five years. Although many factors contribute to business failure, a common culprit is poor cash management. All businesses, large and small, must deal with the uncertainty of fluctuating sales, inventories and expenses. Follow these practices to moderate the ebb and flow of cash in your business:

- **Analyze cash flow.** If you don't know it's broken, you can't fix it. The starting point for any meaningful action to control cash is discovering where the money's coming from and where it's going. Get a handle on cash by monitoring your bank accounts for at least one complete business cycle; then use that information to establish a realistic forecast. This should be done throughout the year to help you understand your seasonal cash needs.
- **Monitor receivables.** Extending credit to risky customers, failing to identify late payers, refusing to collect payment on a timely basis — these practices amplify cash flow problems. Mitigate receivable fluctuations by generating aging reports. Use the report to follow up when payments are late. You may even wish to offer discounts to customers who pay early

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Cash Flow Concepts That Can Save Your Business (Cont'd)

- **Slow down payments.** Prudent cash flow management dictates that you retain cash as long as possible. So pay your vendors on time — not too early. Of course, if suppliers offer discounts for early payment, take advantage of cost savings whenever possible. Also consider negotiating with suppliers to extend payment terms.
- **Time large expenses.** If you know a property tax payment is due in May, start setting aside money in a separate fund in October. The same holds true for any large payment that comes due during the year. If your equipment is nearing the end of its useful life or your roof is showing signs of wear, start saving now. Don't let big expenditures catch you by surprise.

By taking these steps and endeavoring to smooth out cash fluctuations, proficient managers keep their companies strong throughout the business cycle.

No Excuses. Time to Lower Your Tax Bill

It's easy to push tax planning to the sidelines when tax laws are ever-changing and hard to understand. Here are some common (but often unfounded) reasons for avoiding tax situations, plus tips to help get past them and start paying less tax this year:

- **It doesn't make a difference.** This point of view is especially problematic in years with unique situations. 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 save you a bunch of taxes.
 - 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
- **It's out of your control.** Timing is important when it comes to minimizing taxes, and the timing is often in your control. Bundling multiple years of donations into one to get a deduction, holding investments over one year to get a lower tax rate, and making efficient retirement withdrawals are just some examples of prudent tax strategies that you control.

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No Excuses. Time to Lower Your Tax Bill (Cont'd)

- **There's not enough money.** 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.
- **I only need help at tax time.** When the standard deduction doubled in 2018, many people assumed they could kick their feet up and wait for a big refund. That assumption proved to be false for a large number of taxpayers when their refunds came in lower than expected or turned into a tax bill. Don't let this happen to you! Every year has it's own set of changes and challenges that you should plan for well before tax time rolls around.
- **It's too overwhelming.** 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 2019. If you haven't scheduled a tax-planning meeting, now is a great time to do so.

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.