Freddi Eberhart & Associates Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Newsletter

AUGUST 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:

September 5

- Labor Day

September 15

- Filing deadline for 2021 calendar-year S corporation and partnership tax returns on extension
- Due date for 3rd quarter installment of 2022 estimated income tax for individuals, calendar-year corporations and calendar-year trusts & estates

Welcome to the last month of traditional summer vacation! And what better way to lead the final month of summer vacation by outlining ideas to save money while taking that long-deserved break.

This month's letter includes information on new contribution limits for Health Savings Account for 2023 and a review of five ways to take advantage of IRA accounts to reduce your tax burden. All done with plenty of time to implement the ideas before the end of the year.

Please read about tips to improve your credit score and what IRS letter is mailed to 9 millions taxpayers. All this plus an article about proposed new tax legislation and pass-through entity tax payment problems!

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

2023 Health Savings Account Limits

New contribution limits are on the horizon

Contribution limits for the ever-popular health savings account (HSA) are set for 2023. The new limits are outlined here with current year amounts noted for comparison. So plan now for your 2023 contributions.

What is an HSA?

An HSA is a tax-advantaged savings account whose funds can be used to pay qualified health care costs for you, your spouse and your dependents. The account is a great way to pay for qualified health care

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2023 Health Savings Account Limits (Cont'd)

costs with pre-tax dollars. In fact, any investment gains on your funds are also tax-free as long as they are used to pay for qualified medical, dental or vision expenses. Unused funds may be carried over from one year to the next. You must be enrolled in a high-deductible health plan (HDHP) to use an HSA.

The limits

Health Savings Account (HSA) Limits		*NEW!* 2023	2022	Change
Maximum Annual Contribution	Self	$3,850	$3,650	+200
	Family	$7,750	$7,300	+450
	Add: 55+ catch up contribution	*$1,000*	*$1,000*	*nc*
Health Insurance Requirements (HDHP)				
Minimum Deductible	Self coverage	$1,500	$1,400	+100
	Family coverage	$3,000	$2,800	+200
Out-of-Pocket Maximum	Self coverage	$7,500	$7,050	+450
	Family coverage	$15,000	$14,100	+900

Source: IRS Rev Proc 2022-24

Note: *An HDHP plan has minimum deductible requirements that are typically higher than traditional health insurance plans. To qualify for an HSA, your health coverage must have out-of-pocket payment limits in line with the maximums noted above.*

The key is to maximize funds to pay for your medical, dental, and vision care expenses with pre-tax money. By building your account now, you could have a nest egg for unforeseen future expenses.

5 Great Things to Know about IRAs

IRA's can be a powerful tool to lower taxes all while saving for retirement or other predetermined uses. Here are five fairly unreported things to know about IRA's.

1. **A nonworking spouse can have an IRA.** If your spouse doesn't work, you may still be able to open and contribute to an IRA for your spouse, assuming that you work and file a joint tax return. This can be a great way to help reduce your taxable income each year.
2. **Even children can have IRAs.** If your child has earned income, you can open and contribute to an IRA. Just ensure you can document the earnings. While your child can contribute their own earnings,

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5 Great Things to Know about IRAs (Cont'd)

many parents will help keep track of things like babysitting money, then match those earnings in either a traditional or ROTH IRA. Often the ROTH IRA is preferred, because the future earnings could be tax free! Your child's IRA is managed by an adult until the child is old enough for the account to be transferred to their name.

3. **You may still contribute to an IRA if you have a 401(k) or similar program at work.** As long as you do not exceed the income limits, it is ok to have both an IRA as well as other forms of retirement savings plans. It's simply important to know your options and plan accordingly.
4. **Non-deductible contributions may be made.** If you exceed IRA income phaseouts, contributions to your IRA may not reduce your taxable income for the year. But you may still want to make after-tax contributions to a non-deductible IRA. Remember, while you are taxed on the contributions to a non-deductible IRA, the earnings can still grow tax-deferred.
5. **It's not just for retirement.** With traditional IRAs, if you withdraw funds before the age of 59 1/2 you may be subject to income tax AND an early withdrawal penalty. But there are exceptions to this rule. These include withdrawals for a first time home purchase, major medical bills, college costs, birth/adoption and many others. However, it is important to know the rules BEFORE you withdraw the funds.

Tax rules surrounding IRAs are vast and complex. But within the rules are numerous situations that if you know they exist, can help you plan for a more tax-efficient future.

Tips to Improve Your Credit Score

Credit scores are used to determine interest rates on mortgages, car loans and even the amount you pay for insurance premiums. Because of this, it is a good idea to review ways to improve yours. Here are some ideas:

- **Look for errors on your credit report.** The place to start is a review of your credit reports. You are entitled to get a free copy of your credit report every 12 months from each credit reporting company: Equifax, Experian and TransUnion. So get a copy of your report and review it for accuracy. Aggressively follow up to correct any errors using the process outlined by each credit reporting company.
- **Pay bills on time.** The easiest way to improve your credit is to have a string of on-time payments for all bills reported to the credit agencies. This is the most important part of your credit score equation. So while reviewing your credit report, pay special attention to who is reporting your payments and note if any are delayed. Then gather all your monthly bills, identify the due dates, and take advantage of automated tools to ensure the payments are always on time.

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Tips to Improve Your Credit Score (Cont'd)

- **Sign up for score-boosting programs.** A newer way to help improve your credit is to include information on your credit report that normally isn't reported. Programs like Experian Boost and UltraFICO help you add bills such as rent, utility, and cell phone payments to your credit report, and to analyze how you use your checking, savings or money market accounts. Be aware that these program may ask for access to you bank accounts and could easily work against you if the reporting has a negative impact on your credit if there is a billing problem.

- **Avoid requests for new credit.** Trying to open a new credit or loan account could lower your score by as much as 10 points. The more inquiries made by creditors who are trying to assess your creditworthiness when trying to open a new account, the more impact it has on your credit score. If you notice a number of vendors are making inquiries, you can always turn off this function with credit agencies. Just remember to turn it back on if you are actively refinancing your mortgage or looking for other credit. While in the long-term your score can be maximized by having a diverse mix of different types of credit accounts, in the short-term adding new accounts will negatively affect your score.

How quickly you can raise your credit score obviously depends on your individual situation, but following these tips will lead to a higher credit score sooner rather than later.

IRS Mailing Millions of Underpayment Letters to Taxpayers

This IRS will send millions of letters to taxpayers who allegedly have underpaid the U.S. Treasury. The letter, called a CP14, is sent to nearly 9 million taxpayers every year.

While the IRS suspended the mailing of other letters to taxpayers, the CP14 letter was not among those that were suspended.

If a taxpayer has a balance of more than $5 on their account, a CP14 will be issued. The letter will state how much you owe and ask for payment within 21 days. The IRS is required to send CP14 notices within 60 days after the IRS computes a taxpayer's liability.

If you believe the information contained in the CP14 letter is incorrect, you can respond to the letter with evidence that backs up your claim. Believe it or not, sometimes the IRS is wrong.

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Proposed Tax Legislation

The following is an overview of several recent tax proposals discussed or introduced in Congress over the past several weeks. It is important that you not treat these proposals as passed legislation. Many hurdles remain before any of these legislative ideas become law. In the meantime, it is useful to see what types of tax laws may be affecting you in the future.

- **Permanent Extension of Rate Cuts and Extension of National Tax Simplification Act of 2022 (House of Representatives Bill 8214):** This bill, introduced June 23, proposes to amend the Internal Revenue Code of 1986 to make permanent certain provisions of Public Law 115-97 affecting individuals.

- **Equal Access to Reproductive Care Act (House of Representatives Bill 8190):** This bill, introduced June 22, proposes to amend the Internal Revenue Code of 1986 to treat certain assisted reproduction expenses as medical expenses of the taxpayer.

- **Energy Efficiency for Affordable Housing Act (Senate Bill 4422):** This bill, introduced June 21, proposes to amend the Internal Revenue Code of 1986 to exclude certain combat zone compensation of certain service members relating to remotely piloted aircraft from gross income.

- **Energy Efficiency for Affordable Housing Act (Senate Bill 4422):** This bill, introduced June 16, proposes to amend the Internal Revenue Code of 1986 to increase the low-income housing credit for rehabilitation expenditures for buildings achieving enhanced energy performance.

- **Community Development Investment Tax Credit Act of 2022 (Senate Bill 4418):** This bill, introduced June 16, proposes to amend the Internal Revenue Code of 1986 to provide a credit for investment in Community Development Financial Institutions.

- **Educational Choice for Children Act (Senate Bill 4416):** This bill, introduced June 16, proposes to amend the Internal Revenue Code of 1986 to allow a credit against tax for charitable donations to nonprofit organizations providing education scholarships to qualified elementary and secondary students.

- **Stop Taxes Against Menstrual Products Act of 2022 (House of Representatives Bill 8107):** This bill, introduced June 16, proposes to prohibit states from imposing a tax on the retail sale of menstrual products.

- **Healthy Homes Act (House of Representatives Bill 7990):** This bill, introduced June 8, proposes to amend the Internal Revenue Code of 1986 to temporarily expand the low–income

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Proposed Tax Legislation (Cont'd)

housing tax credit for healthcare-oriented housing.

IMPORTANT: The above are proposals. There are many steps each bill must go through before they are signed into law.

Information retrieved from: GovTrack.us
https://www.govtrack.us/congress/bills/subjects/taxation/6342

2022 Pass-Through Entity Tax Payment Problems

Due to an issue with some software providers, many pass-through entity tax payments made with 2022 vouchers have been improperly applied to the 2021 tax year. This is resulting in refunds of June pass-through entity elective tax prepayments made to preserve the right to make the 2022 pass-through entity tax election. The FTB is aware of this issue, and they are working quickly to address the problem.

This is only an issue for payments made with Form 3893 (PTE), Pass-Through Entity Elective Tax Payment Vouchers, that were generated through tax software programs. Payments made using WebPay or with manually prepared vouchers have been properly applied.

The FTB has confirmed that the incorrect application of these payments will not jeopardize taxpayers' ability to elect to pay the tax for 2022. However, because these payments have been refunded taxpayers must take action to correct this issue by returning the erroneous refund. The FTB is working on creating a dedicated PO box, and specific instructions for these taxpayers to respond to this issue. This information will be included in their upcoming issue of Tax News which is expected to be released this month.

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.