Freddi Eberhart & Associates Inc.

CERTIFIED PUBLIC ACCOUNTANTS

Newsletter

AUGUST 2023

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:

August 7

- Purple Heart Day

August 11

- National Son and Daughter Day

Preventing unwanted tax surprises starts with proper planning. And there's no better time than now to begin looking at how you can cut next year's tax bill.

In this month's newsletter, we've included several situations when it makes sense to schedule a tax review so you can try and avoid a future tax surprise.

Also read about several ideas for mastering your credit card and tips to lower the cost of your auto insurance.

As always, please feel free to pass this newsletter to anyone who may find it valuable and call if you have any questions or concerns.

When to Call: Common Situations that Require a Tax Review

Taxes can affect many areas of your life. Here are some common situations when you'll want to schedule a tax review.

1. **Something changed in your life.** A change in your life could mean significant changes in your tax status. Some of these changes include:

   How your taxes may be different: *Tax deductions and credits can increase and decrease because of these and other life changes. You'll want to know as soon as possible if your taxes will be going up so you can be prepared to pay the increased amount.*

   a. Getting married or divorced

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When to Call: Common Situations that Require a Tax Review (Cont'd)

b. Retirement

c. A child starting college or an adult going back to school

d. Moving to a new home

e. The birth of a child or an adoption

f. A family member passes away

2. A new job. You'll have several decisions to make when starting a new job that will affect your tax situation:

How your taxes may be different: *You can decrease your taxable income by contributing to qualified retirement and medical savings plans. A tax planning session can reveal how much you can contribute to each of these plans, and if you should consider adjusting your paycheck withholdings.*

a. Retirement savings plans - Learn about the available retirement savings plans offered by the employer and any other tax-deferred savings options. Remember that some employers will match a certain percentage of contributions that an employee makes to a plan.

b. Medical savings accounts - Your employer may offer a Flexible Spending Account or a Health Savings Account to help with paying certain medical expenses with pre-tax funds.

c. Withholding - You'll need to determine if you want additional federal (along with state and local income taxes if applicable) income taxes withheld from your paycheck beyond what your employer is obligated to withhold.

3. A new business or side hustle. A new business (hopefully!) means more money, but also more tax responsibilities. Here are some things to consider:

How your taxes may be different: *Most small businesses are flow through entities. This means any business profits will add to your personal income. Because of this, your personal tax situation could vary dramatically! So tax planning becomes critical on two fronts: Your new taxable income level AND helping you stay in compliance at the federal, state and local business tax rules.*

a. Separate accounts and credit cards - If you only remember one tip, it's to keep separate accounts. Without this, it is easy for the IRS to deem expenses as personal and, therefore, not deductible.

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When to Call: Common Situations that Require a Tax Review (Cont'd)

b. Paying estimated taxes - As a business owner, you are responsible for making tax payments throughout the year to the IRS if your business is profitable.

c. Setting up a bookkeeping system - Having an accurate bookkeeping system is vital to making sure you don't pay any more in taxes than you're legally obligated to pay. Consider reconciling your bank accounts weekly (or even daily if possible) so they're always current.

d. Other tax responsibilities - You may be required to submit a sales tax return depending on what types of products you sell or services you provide. You'll also be required to submit various payroll tax returns if you have any employees.

Nobody likes a tax surprise and now is a great time to schedule a tax planning review.

Mastering Your Credit Card (and Not the Other Way Around!)

The average credit card balance in America ballooned to $5,910 in 2022. This figure is up 13.2% from the year before according to Experian, and it spells out a worrisome (and costly) trend for consumers. After all, credit card interest rates were on rise throughout all last year and well into 2023, mostly due to changes to the federal funds rate by the Federal Reserve. The fact is, consumers with credit card debt pay an average interest rate of 20.92% as of February 2023, compared to just 16.65% in the second quarter of 2022.

Fortunately, you have the power to use credit cards to your advantage — and to avoid paying exorbitant interest rates altogether. Consider these tips to master credit cards instead of letting them rule over you this year.

- **Plan purchases to carry no credit card balance.** While interest rates are incredibly high right now, you can use credit cards without paying for the privilege. Instead of racking up balances and hoping you can afford the bill, use credit cards for planned purchases only — and for spending that's backed up by money in the bank. Provided you pay your credit card balance in full each month, today's sky-high interest rates can't hurt you.

- **Consolidate high-interest debts.** You can get a break from today's high rates by consolidating credit card debt you already have with a 0% balance transfer credit card. Many cards in this niche give you 0% APR on balance transfers, purchases or both for up to 21 months. This gives you time to pay down your balance with zero interest, which can help eliminate debt faster and save money along the way.

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Mastering Your Credit Card (and Not the Other Way Around!) (Cont'd)

- **Earn rewards for your spending.** If you're still using your old credit card from college or haven't bothered to upgrade in the last few years, you could be missing out. Today's credit cards let you earn as much as 2% cash back on spending with no annual fee, or you can opt to earn generous rewards for travel instead. Just make sure you carry no balance, as interest rates on these cards can be even higher than regular credit cards.

- **Put your perks to work.** Finally, check whether your credit card has other, often unpromoted, benefits. Depending on your card, you may have access to perks like purchase protection against damage or theft, extended warranties on items you buy that come with a manufacturer's warranty or even travel insurance protections. If you already have access to these benefits or others, knowing ahead of time is the best way to put them to good use.

Credit cards offer convenience and a range of features you can benefit from, but they can either be a blessing or a curse for your finances. Ultimately, your best bet is taking control of your credit card use before it controls you.

6 Tips for Lower Car Insurance Rates

If you've been feeling the pinch of higher auto insurance rates along with other rising costs, you should know some factors that impact these rates are well within your control. Consider these tips to pay less this year and beyond.

- **Improve your credit score.** Many insurance companies consider your credit score and overall creditworthiness when assigning rates, mostly because their research shows credit scores directly correlate with how much risk you pose as a driver. This means that if you want to pay less for auto insurance coverage, you should strive to increase your credit score or move your policy to an insurer that does not use this factor in determining rates. Some easy ways to increase your credit score include using less than 20% of your credit line on your credit cards and by paying all your bills on time.

- **Ask about discounts.** Some auto insurance companies have discounts that are not actively promoted. These are often missed by long-time policy holders that do not specifically ask for them. Examples of discounts include lower rates for being a good student, driving fewer miles, purchasing a car with a lower claim history, or discounts for having air bags, anti-lock brakes, and theft detection devices. There are even discounts for federal employees, military members and for being accident-free for a certain number of years.

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6 Tips for Lower Car Insurance Rates (Cont'd)

- **Pay premiums in advance.** Some auto insurance companies also offer pay-in-full discounts that let you save when you pay for six months or a full year of premiums upfront. This discount can result in 10% to 20% lower premiums right off the bat.

- **Bundle multiple policies.** You may be able to score a discount for having multiple types of coverage with a single insurance company, just as you may get a multi-vehicle discount for having more than one car insured. Typical bundled policies include life insurance, auto insurance, home insurance and umbrella coverage.

- **Tweak your deductible.** Your auto insurance deductible — or the amount you pay for certain claims before coverage kicks in — also plays a role in the cost you pay for auto coverage, and higher deductibles can lead to savings. With that in mind, check how your premiums change if you increase your deductible from $500 to $1,000, from $1,000 to $2,500, and so on.

- **Take a safe driving course.** Finally, taking a safe driving course can help lock in lower auto insurance premiums no matter your age or driving history. The amount of savings you'll get with this discount can vary, so ask your insurer.

Auto insurance rates may not be going down any time soon, but the steps you take now can help you pay lower rates from this point forward. By improving your credit, checking for discounts and tweaking your policy details, you can get the coverage you need for a price you can afford.

Multiple Jobs: Be Prepared for Tax Surprises

Working more than one job can help maximize income, but also potentially create a tax surprise. Here are several be aware of:

- **Social Security Surprise:** As a full-time employee, the most you'll have to pay in Social Security taxes in 2023 is $9,932. The problem is each employer you work for will withhold Social Security taxes up to this threshold.

Example: Jane Smith works two jobs. Employer #1 has withheld $6,000 in Social Security taxes so far in 2023, while Employer #2 has withheld $4,000. Jane has already paid more than the annual limit of $9,932 in Social Security taxes for 2023. Jane will get back the excess Social Security taxes, but she'll need to wait until she files her 2023 tax return in 2024.

What you can do: *Work as a contractor for your second job. You'll be responsible for paying your own income, Social Security and Medicare taxes, but you'll be able to manage Social Security taxes to avoid overpayment.*

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Multiple Jobs: Be Prepared for Tax Surprises (Cont'd)

- **Phaseout Surprise:** As your income increases, the number of deductions and tax credits available to you will get smaller as benefit phaseout limits are reached.

Example: The Child Tax Credit provides a $2,000 tax credit for each qualifying child. You don't qualify for this credit, however, if you file a joint tax return with taxable income above $440,000, or are single and file a return with taxable income above $240,000.

What you can do: *Certain deductions and adjustments can help decrease taxable income below a phaseout's limit. This will potentially allow you to still take advantage of a tax break, such as the Child Tax Credit.*

- **Benefits Surprise:** Every retirement and medical account limits how much you can contribute annually. If you exceed these limits, you may have to pay taxes twice on the same income.

Example: The 401(k) contribution limit in 2023 is $22,500. You inadvertently contribute $27,500. The first $22,500 of contributions won't be taxed until you start making withdrawals after you retire. The excess $5,000 contribution could be taxed twice - you must include the $5,000 as taxable income on your 2023 tax return; you'll also pay taxes on that $5,000 when you withdraw it from your 401(k) after you retire.

What you can do: *Correct any over-contribution before filing that year's tax return. Up-to-date record keeping throughout the year can alert you to when you're close to the annual contribution limit.*

- **Estimated Tax Surprise:** If your extra job is a contract position, you'll receive a Form 1099 summarizing how much you billed a particular client in all of 2023. If this is the first time receiving a 1099, you may be surprised to learn that you're responsible for making all tax payments to the IRS. If you are making a net profit, tax payments for 2023 will need to be made in September and January 2024.

What you can do: *Estimated tax payments can sometimes be rather large, especially if you're making a decent amount of money, so keep good bookkeeping records so you can budget for these payments.*

Please call if you have questions about these or any other job-related tax topics.

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.