Freddi Eberhart & Associates Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Newsletter

MARCH 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:

March 15

- Due date for SOME (see the article below) partnership and S-corporation tax returns (Forms 1065, 1120S)

Reminders

- Daylight savings time begins Sunday, March 12

Recent legislation is taking a broad sweep at retirement accounts. While many of the rule changes are implemented over a number of years, some of them are important to know about right away. Summarized in this issue are some of the more important provisions.

As always, feel free to pass this information on to anyone that may find it useful and call if you have any questions or concerns.

Federal and California Filing and Payment Deadline Extended to October 16, 2023, for MOST California Taxpayers Impacted by Recent Storms (updated March 02, 2023)

In a set of "welcome to our world" last minute changes, both IRS and California Franchise Tax Board have extended the due dates for filing of returns and payment of taxes for SOME individuals and business entities.

This relief applies to tax filing deadlines and many tax payments due on or after January 8, 2023, and before October 16, 2023, for individuals and businesses in California such as:

- Individuals whose tax returns and payments are due on April 18, 2023.
- Quarterly estimated tax payments due January 17, 2023, April 18, 2023, June 15, 2023, and September 15, 2023.

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Federal and California Filing and Payment Deadline Extended to October 16, 2023, for MOST California Taxpayers Impacted by Recent Storms (updated March 02, 2023) (Cont'd)

- Business entities whose tax returns are normally due on March 15 and April 18.
- PTE Elective Tax payments due on March 15, 2023 and June 15, 2023.

The following counties are eligible for this extended tax relief, per the IRS and FTB announcements:

Residents and businesses in Alameda, Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Fresno, Glenn, Humboldt, Inyo, Kings, Lake, Los Angeles, Madera, Marin, Mariposa, Mendocino, Merced, Mono, Monterey, Napa, Nevada, Orange, Placer, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Siskiyou, Solano, Sonoma, Stanislaus, Sutter, Tehama, Trinity, Tulare, Tuolumne, Ventura, Yolo, and Yuba counties are eligible for tax relief.

Please note we are still working through the practical application of all of these IRS and California legislative relief announcements and notices. The announcements and notices are released before the interpretations and subsequent details and instructions for those of us on the front lines have been worked out. Stay tuned and we will do our best to keep you abreast of these changes and implications as they continue to arise.

California Middle Class Tax Refund-Taxable or Not?

California doled out 2022 Middle Class Tax Refunds in droves via either direct deposit or debit cards beginning in October of 2022. These were intended to cushion a bit of the pain of rising gas prices and inflation. California subsequently followed up by issuing 1099-Miscellaneous forms to refund recipients. Now what? Is the IRS going to tax us on these or not? Do we report them? Oh, the quandary!

On February 10, 2023, the IRS conceded that due to the complexity of the issue of whether they qualified as excludable disaster relief payments, that this legislative chaos is taking place in the middle of tax season and is only relevant for the 2022 tax year, they are just simply not going to challenge a taxpayer's treatment of these state tax payments as excludable from gross income. This also applies to payments issued by an additional 20 states listed in the IRS announcement (https://www.irs.gov/newsroom/irs-issues-guidance-on-state-tax-payments-to-help-taxpayers).

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California Middle Class Tax Refund-Taxable or Not? (Cont'd)

Additionally, the Middle Class Tax Refund payments are **not** taxed under California law.

That there feels like a bit of a win for the taxpayer. Now the question is how do we report this 1099-Miscellaneous income on our 2022 income tax returns? Given that the IRS's automated systems are not in line with these types of legislative concessions, we are recommending that you let your tax professionals know how much you received, provide the 1099-Miscellaneous form, if received, and let them determine how to show the income reflecting it and back out of your filing so as to avoid the IRS's automated systems sending out thousands of notices for underreported 1099-Miscellaneous income. Welcome to the joys of the lives of your tax professionals.

New Tax Rules Mean Changes for Retirement Accounts

The SECURE Act 2.0, passed by Congress in late 2022, features numerous ways for you to save more money in your tax advantaged retirement accounts. Here are several of the bill's provisions and what they mean for you.

- **Money can continue to grow tax deferred.** If you turn 72 in 2023 or later, you can keep money in a tax-deferred IRA or 401(k) for another 12 months to help the account continue growing before starting to withdraw funds. This retirement benefit is now available thanks to the required minimum distribution age being raised from age 72 to age 73. The age will increase again from 73 to 75 in 2033.

  Action: *Review your retirement account distribution needs and use this extra time to help make your distributions more tax efficient. For example, if you must earn an additional $10,000 before you hit the next highest tax bracket, consider pulling more taxable income out of your retirement account to take advantage of this lower rate. Or use the extra time to consider converting funds tax-efficiently into a Roth IRA.*

- **Be aware of auto enrollment.** The government wants you to save for retirement, so the new law allows businesses to automatically transfer a greater portion of your paycheck into their retirement plan. The maximum contribution that can now be automatically deferred into your employer's 401 (k) plan increases from 10% to 15%.

  Action: *While saving more for retirement is a great idea, this automatic participation does not account for your*

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New Tax Rules Mean Changes for Retirement Accounts (Cont'd)

particular financial needs. So be aware of the possibility that you will automatically be contributing to your retirement account and independently determine what you can afford to put towards retirement. Make any adjustments if necessary, as you are permitted to opt out of auto enrollment. Remember, you also need to build an emergency fund and pay your bills!

- **Take advantage of higher catch-up limits.** Starting in 2024, the $1,000 catch-up contribution for IRAs will receive an annual cost-of-living adjustment in increments of $100, while the $7,500 catch-up contribution for 401(k)s will increase to at least $10,000. This higher 401(k) catch-up limit will also be indexed for inflation starting in 2025. The additional catch-up contribution is available if you're age 50 or older.

  Action: *Review the annual savings limit for your retirement savings account, including the catch-up amount if you are 50 years or older. Then make adjustments to your retirement savings plan as soon as possible to take advantage of the higher savings limits.*

- **Convert unused 529 plan funds to a ROTH IRA.** Beginning in 2024, beneficiaries of 529 plans that have been in place for 15 years or more can transfer assets from the 529 plan to a Roth IRA. The transfer is subject to the beneficiary's annual contribution limit and up to a lifetime maximum of $35,000. This can serve to avoid penalties and taxation on ineligible withdrawals of 529 funds.

Tips for Working Beyond Retirement Age

You may be one of many Americans who plan to work into retirement. Some report they need to work because their savings declined over the past several years, while others say they choose to work because of the greater sense of purpose and engagement that working provides.

Whatever your reason for continuing to work into retirement, here are some tips to get the greatest benefit from your efforts.

- **Consider delaying Social Security.** You can start receiving Social Security retirement benefits as early as age 62, but if you continue to work it may make sense to delay taking it until as late as age 70. This is because your Social Security benefit may be reduced or be subject to income tax due to your other income. In addition, your Social Security monthly benefit increases when you delay starting the retirement benefit. These increases in monthly benefits stop when you reach age 70.

- **Pay attention to bracket-bumping.** Keep in mind that you may have multiple income streams

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Tips for Working Beyond Retirement Age (Cont'd)

during retirement that can bump you into a higher tax bracket and make other income taxable if you're not careful. For example, Social Security benefits are only tax-free if you have less than a certain amount of adjusted gross income ($25,000 for individuals and $32,000 for married filing jointly in 2022), otherwise as much as 85 percent of your benefits can be taxable.

Required distributions from pensions and retirement accounts can also add to your taxable income. Be aware of how close you are to the next tax bracket and adjust your plans accordingly.

- **Be smart about health care.** When you reach age 65, you'll have the option of making Medicare your primary health insurance. If you continue to work, you may be able to stay on your employer's health care plan, switch to Medicare, or adopt a two-plan hybrid option that includes Medicare and a supplemental employer care plan.
- **Look over each option closely.** You may find that you're giving up important coverage if you switch to Medicare prematurely while you still have the option of sticking with your employer plan.
- **Consider your expenses.** If you're reducing your working hours or taking a part-time job, also consider the cost of your extra income stream. Calculate how much it costs to commute and park every day, as well as any other work-related expenses. Now consider how much all those expenses amount to in pre-tax income. Be aware whether the benefits you get from working a little extra are worth the extra financial cost.
- **Time to downsize or relocate?** Where and how you live can be an important factor determining the kind of work you can do while you're retired. Downsizing to a smaller residence or moving to a new locale may be a good strategy to pursue a new kind of work and a different lifestyle.
- **Focus on your deeper purpose.** Use your retirement as an opportunity to find work you enjoy and that adds value to your life. Choose a job that expresses your talents and interests, and that provides a place where your experiences are valued by others.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.