Freddi Eberhart & Associates Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Newsletter

MAY 2024

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:

May 12

- Mother's Day

May 27

- Memorial Day

Having a low tax bill doesn't happen by accident. The best way to keep as much of your hard-earned money away from Uncle Sam as possible is by having a tax planning strategy that you revisit throughout the year.

In this month's newsletter, we've got some tax planning ideas to consider as you head into summer. Also learn the benefits of being a sole proprietor and some tax breaks for parents. Please also read about several ideas to teach your kids about money and banking.

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.

Start Your Tax Planning NOW!

Keeping your taxes as low as possible requires paying attention to your financial situation throughout the year. Here are some tips for getting a head start on tax planning for your 2024 return:

- **Review your paycheck withholdings.** Now is a good time to check your tax withholdings to make sure you haven't been paying too much or too little. Use this online tool from the IRS to help calculate how much your current withholdings match what your final tax bill will be.

  Action step: *To change how much is withheld from your paycheck in taxes, fill out a new Form W-4 and give it to your employer.*

- **Defer earnings.** You could potentially cut your tax liability by deferring your 2024 income to a future year via contributions to a retirement account. For 2024, the 401(k) contribution limit is $23,000

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Start Your Planning NOW! (Cont'd)

($30,500 if 50 or older); $7,000 for both traditional and Roth IRAs ($8,000 if 50 and older); or $16,000 for a SIMPLE IRA ($19,500 if 50 and older).

Action step: *Consider an automatic transfer from either your paycheck or checking account to your retirement account so you won't have to think about manually making a transfer each month.*

- **Plan withdrawals from retirement accounts to be tax efficient.** Your retirement accounts could span multiple account types, such as traditional retirement accounts, Roth accounts, and taxable accounts like brokerage or savings accounts. Because of this, consider planning your withdrawals to be as tax efficient as possible.

  Action step: *One way to structure withdrawals is to pull from taxable accounts first, and leave Roth account withdrawals for last. Another approach is to structure proportional withdrawals from all retirement accounts, which would lead to a more predictable tax bill each year.*

- **Net capital gains with capital losses.** If you have appreciated investments you're thinking about selling, take a look through the rest of your portfolio to see if you have other assets that you could sell for a loss and use to offset your gains. Using the tax strategy of tax-loss harvesting, you may be able to take advantage of stocks that have underperformed.

  Action step: *Make an appointment with your investment advisor to look over your portfolio to see if there are any securities you may want to sell by the end of 2024.*

Tax planning can potentially result in a lower bill from the IRS if you start taking action now. Please call if you have questions about your tax situation for 2024.

The Benefits of Being a Sole Proprietor

Many start-up businesses move from hobby status to a business when they start to make a profit. The tax entity typically used is a sole proprietorship. Taxes on this business activity type flow through your personal tax return on a Schedule C. Here are some benefits to consider if you're trying to decide if being a sole proprietor is right for you:

- **You can hire your kids and decrease your tax bill.** As a sole proprietor, you can hire your kids and avoid paying Social Security and Medicare taxes for their work. While there are exceptions, this can generally save your small business over 7.65% on their wages.

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The Benefits of Being a Sole Proprietor (Cont'd)

- **Your kids can benefit, too.** Any income your kids earn that's less than $12,950 isn't taxed at the federal level. So this is a great way to build a tax-free savings account for your children. Remember, though, that their work must reflect actual activity and reasonable pay. So consider hiring your kids to do copying, act as a receptionist, provide office clean up, advertising or other reasonable activities for your business.

- **Fewer tax forms and filings.** As a sole proprietor, your business activity is reported on a Schedule C within your personal Form 1040 tax return. Other business types like an S corporation, C corporation or a partnership must file separate tax returns, which makes tax compliance a lot more complicated.

- **More control over revenue and expenses.** You often have more control over the taxable income of your small business as a sole proprietor. This can provide more flexibility in determining the timing of some of your revenue and business expenses, which can be used as a great tax planning tool.

- **Hire your spouse.** If handled correctly, a spouse hired as an employee can work to your advantage as a sole proprietor. As long as the spouse is truly an employee of the business, the sole proprietor can benefit as a member of their employee's (spouse's) family benefits. This can include potential medical expense reimbursements.

- **Funding a retirement account.** You can also reduce your business's taxable income by placing some of the profits into a retirement account like an IRA. As a sole proprietor, you can readily manage your marginal tax rate by controlling the amount you wish to set aside in this pre-tax retirement account.

- **It's not all roses.** While there are many benefits of running your business as a sole proprietor, don't forget the drawbacks. One of the most significant drawbacks is the lack of personal legal protection, which is a feature in other business forms like corporations and Limited Liability Companies. Most sole proprietors address this with proper business insurance, so do not overlook the need to find coverage for yourself.

Please call if you have questions about your sole proprietor business.

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Kids Can Be Expensive! Here Are Some Tax Breaks to Help.

Kids can pose challenges from every direction for their parents – feeding times, car seats, sleep schedules, strollers, child care, and of course...taxes! What most parents don't consider is that these bundles of joy complicate their tax situation. Here are some tax tips that may help:

- **Start a 529 education savings plan.** 529 education savings plans are a great way to kick off the baby's savings for the future. These plans offer low-cost investments that grow tax-free as long as the funds are used to pay for eligible education expenses (including elementary and secondary tuition). States administer these plans, but that doesn't mean you are stuck with the plan available in your home state. Feel free to shop around for a plan that works for you. Starting to save early, even a little bit, maximizes the amount of tax-free compound interest you can earn in the 18+ years you have before kids go to college.

  Bonus tip for family and friends: *Anyone can contribute up to $18,000 to the plan in 2024 for each child! In addition, there is a special provision for 529 plans that allows five years worth of gifts to be contributed at once — a great estate-planning strategy for grandparents.*

- **Update Form W-4.** Every year, parents need to review their tax withholdings. Remember, the birth of a child brings new tax breaks, including a $2,000 Child Tax Credit, along with the Child and Dependent Care Credit for childcare expenses. These credits can be taken advantage of now by lowering tax withholdings and increasing take-home pay to help cover the cost of diapers and other needs that come with babies and children. On the other side of the coin, these benefits fall away as your kids grow older. The Dependent Care Credit is for children under the age of 13 and the Child Tax Credit is available for kids under the age of 17. So plan accordingly.

- **Prepare for medical expenses.** Having a baby is expensive. So is watching your kids grow up! Fortunately, there are ways to be tax smart in covering the predictable medical and dental expenses. The first thing to do is try to pay for as many out-of-pocket expenses with pre-tax money. Many employers offer tax-advantaged accounts such as a Health Savings Account (HSA) or a Flexible Spending Account (FSA). So check this out and fund these accounts as much as possible. And while it's more difficult to claim medical expenses as an itemized deduction, it's impossible to do so if you don't keep receipts.

Having a kid can be expensive. Schedule a tax review today to make sure you're getting all the child tax breaks you deserve!

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Ideas to Help Teach Your Kids About Money

It's never too early to start teaching your kids about money. By proactively explaining how money and banking work in the *real world*, you can help them begin their adult lives on solid financial footing. Here are some ideas.

- **Help kids to start earning money.** Letting kids earn money is a good first step to learning positive financial habits. Teenagers can get a traditional job or line up babysitting work to earn some cash, whereas younger children can mow lawns, pick weeds, or do other age-appropriate household chores.
- **Open a bank account.** Kids need a place to store any money they earn, as well as cash they receive for birthdays and holidays. Plenty of banks offer checking and savings accounts for children and teens, provided parents or a guardian are also on the account. This is also a great opportunity to teach how to balance a bank account every month.
- **Get a debit car for older kids.** There are many teen checking and debit card options available today, including some free options. For example, Capital One offers a teen checking account option with no fees, no account minimums, and a debit card for kids.
- **Help teenagers build credit for the future.** You can add teenagers to credit card accounts as an authorized user to help them build credit history over time. Just remember that the impact on a teen's credit will only be positive if you pay bills on time and keep debt levels within a reasonable range.
- **Teach about investing.** Kids with earned income can contribute money to their own IRA. There are also online apps for teenagers that can help them monitor their investments, such as the Greenlight app, which lets families manage money and research stocks and ETFs.

Teaching kids about money can give them a head start with being financially savvy. The lessons they learn can help them minimize debt, save more money, and potentially have enough money when they retire.

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.