Freddi Eberhart & Associates Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Newsletter

JULY 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:

July 4

- Independence Day

July 28

- Parents' Day

Responding to a letter from the IRS isn't a weekend do-it-yourself project that you should attempt to tackle on your own.

In this month's newsletter, learn why you should partner with a tax expert if you receive either a notification saying the IRS will be auditing you, or a notice that simply says another tax document was found and you owe an additional $100.

Also in this edition, find out why retiring early is catching on FIRE, tips to avoid the summertime tax blues, and please read about few financials lessons for your child.

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

Partner With a Tax Expert if the IRS Comes Knocking

Sleuthing your way through a tax audit or responding to a letter from the IRS by yourself is not the same as fixing a leaky faucet or changing your oil. Here are reasons to partner with a tax professional as soon as you receive a letter from the IRS:

- **IRS auditors do this for a living – you don't.** Seasoned IRS agents see your situation many times and know the rules better than you. Even worse, they are under no obligation to teach you the rules. Just like a defendant needs the help of a lawyer in court, you need someone in your corner that knows your rights and understands the correct tax code to apply in correspondence with the IRS.

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Partner With a Tax Expert if the IRS Comes Knocking (Cont'd)

- **Insufficient records will cost you.** When selected for an audit, the IRS will typically make a written request for specific documents they want to see. The list may include receipts, bills, legal documents, loan agreements and other records. If you are missing something from the list, things get dicey. It may be possible to reconstruct some of your records, but you might have to rely on a good explanation to avoid additional taxes plus a possible 20 percent negligence penalty.

- **Too much information can increase audit risk.** While most audits are limited in scope, IRS agents have the authority to increase that scope based on what they find during their original analysis. That means if they find a document or hear something you say that sounds suspicious, they can extend the audit to additional areas. Being prepared with proper support along with concise answers to their questions is the best approach to limiting further audit risk.

- **Missing an audit deadline can lead to trouble.** When you receive the original audit request, it will include a response deadline (typically 30 days). If you miss the deadline, the IRS will change your tax return using their interpretation of findings, not yours. This typically means assessing new taxes, interest and penalties. If you wish your point of view to be heard, get help right away to prepare a plan and manage the IRS's deadlines.

- **Relying on an expert gives you peace of mind.** Tax audits are never fun, but they don't have to be pull-your-hair-out stressful. A tax expert can help map out a plan and take it step-by-step to ensure the best possible outcome. You'll rest easy knowing your audit situation is being handled by someone with the proper expertise that also has your best interests in mind.

Retiring Early Catches on FIRE

Is trying to retire in your 30s or 40s the right move for you?

Retiring early is an idea that an entire community of people across the United States is putting into action. It even has an official name – Financial Independence Retire Early, or FIRE. Read on to find out how it works. And who knows – maybe you or someone you know may want to try it!

How it started

The origins of FIRE started in the early 1990s when a former Wall Street analyst, Joe Dominguez, shared his story in the book Your Money or Your Life about retiring at age 31, never to work again, and have total financial independence. The ideas presented in the book became popular during the 2008 financial crisis when younger people started re-evaluating the historical practice of working a 9-to-5 job until age 65 or older. Many people identified with what Dominguez discussed in his book,

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Retiring Early Catches on FIRE (Cont'd)

especially doing things when they're younger rather than waiting for the golden years of retirement.

How it works

The FIRE concept is built on extreme saving and frugality in your early years so you can comfortably live with enough money well before the traditional retirement age of 65. Here are some of the basic rules:

- **Spend as little as possible.** Refrain from activities such as eating out, going on vacation, and purchasing brand name clothing. Focus on activities such as bunking with friends and riding your bike to work. You adopt (almost) anything you can to cut expenses.
- **Save as much as possible.** Once you identify the minimum amount of money you need to live comfortably in the present, save everything else. The goal is saving 50% to 70% (!) of your income.
- **Earn as much as possible.** Whether it's quickly climbing the corporate ladder, adding a side hustle, or making smart investments, maximizing income is the name of the game. Income-producing activities are also prioritized in place of most of your hobbies. The more you make, the faster you can get to your goal of financial independence.
- **Set a specific goal, then retire when you achieve it.** The idea is to get to your goal as fast as possible so you can retire in your 30s and 40s. Even if you're in your 30s, 40s or 50s right now, you can do a modified form of FIRE to retire as quickly as you can.

FIRE can become COASTING

While retiring early and having total freedom sounds great in theory, some people struggle with boredom and overspending after achieving FIRE. One option to consider if you find yourself in this situation is called coasting. Instead of completely retiring in your 30s or 40s, coasters simply downshift to a less demanding or more enjoyable job to continue earning money while also enjoying the benefits of financial freedom without the stresses of maintaining a certain income level.

While the FIRE movement isn't for everyone, you can adopt your own variation by saving as much as you can while you're working so you can enjoy some level of financial independence as soon as you can.

Avoid Summertime Tax Blues With These Planning Tips

If you picked up a part-time job for some extra summer spending money, you may have to set aside some of your cash for taxes. Here are some tips to help you manage the taxes on your summer earnings:

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Avoid the Summertime Tax Blues With These Planning Tips (Cont'd)

- **Take advantage of tax-free earnings limits.** If you anticipate making less than the annual standard deduction ($14,600 for single taxpayers in 2024), none of your earnings are subject to federal taxes! If possible, earn at least that amount each year to maximize your tax-free earnings. Remember, this only applies to earned income like your summer job. These rules do not apply to sources of income such as interest income or dividend income.

  Tax Tip: *If your annual earnings will be less than the standard deduction, you can claim EXEMPT on your Form W-4 if you work part-time for a business. That prevents federal income taxes from being withheld from your paycheck. And don't forget to review state and local taxes and regulations, which can be another source of tax surprises!*

- **Review the need to make estimated payments.** As an independent contractor, you are responsible for paying all taxes on your earnings. This is done by making quarterly estimated tax payments to the IRS using Form 1040-ES. In addition to income taxes, contractors also need to pay self-employment taxes of 15.3% on earnings at the federal level. You may also need to pay estimated taxes at the state level.

  Tax Tip: *Track your expenses and save receipts. By doing this, you can subtract eligible expenses like mileage and supplies from your gross earnings. Use this lower income number to calculate your self-employment tax and correctly estimate your quarterly income tax obligation.*

- **Closely monitor tax withholdings.** As an employee, your employer withholds taxes based on what you claim on Form W-4. The tax tables used by this form to calculate your withholdings unfortunately do not account for seasonal jobs. This typically results in paycheck withholdings being too low for supplemental income workers and too high for students working during the summer.

  Tax Tip: *If you anticipate earnings in excess of the standard deduction, request a revision of your withholdings. Use tools on the IRS web site, review last year's tax return, or ask for help to estimate the correct amount to withhold. From there, ask your employer to increase or decrease your federal and/or state withholdings.*

With a little tax planning, you can ensure that your summer job or side hustle provides the income you're looking for without the disappointment of unexpected taxes. Please call if you have any questions.

Summertime Financial Lessons for Your Child

Children on summer break have plenty of free time on their hands, which is usually spent playing outdoors, working on summer projects and participating in various sports and clubs. As parents, you can also weave in financial lessons to these summertime activities to reinforce great money habits. Here are some ideas:

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Summertime Financial Lessons for Your Child (Cont'd)

- **Earning money.** Teach entrepreneurship with a lemonade stand. You can show how some of the money earned from selling lemonade needs to be reinvested to purchase lemonade mix and other supplies. Explain concepts such as breakeven and profit by walking your children through how to calculate how much money needs to be earned to cover expenses, and to track the money left over after expenses have been paid.

- **Saving money.** Many children have big plans for summer vacation. But these plans cost money! Explain what you as parents will pay and what your child will have to pay. Encourage them to set a specific goal for what they want to buy, along with how much money they need to save. Then create something visible to track their goal, such as a thermometer that gets colored in as the amount of money saved increases.

- **Budgeting money.** Involve your children with budgeting for various summer activities. If you're going on vacation, tell them the overall budget for the trip and have them help you plan. When discussing lodging, for example, give them the choice of either staying at a fancy hotel, or downgrading the hotel and having money left over to go to an amusement park.

- **Spending money.** It's amazing how quickly you go through snacks. Summer is a great time for your children to go along to the grocery store to see how much their favorite snacks actually cost. Consider giving a snack allowance for however often you go shopping, then explaining that they can buy whatever they want with that amount of money. The only catch is the snacks your child decides to buy must last until your next shopping trip.

- **Borrowing money.** Lend your child a reasonable amount of money at the beginning of the summer to spend on whatever they want, but explain it must be paid back with interest. You could even arrange the loan to be paid in two or three installments. You can show your child how loans work, and that they're on the hook for making payments even if they don't have the money.

- **Investing money.** Whether its chores around the house, a part-time job, or a kid-appropriate business, make an offer to match whatever your child earns up to a certain amount. This could be done weekly, monthly, or at other intervals. This is a great opportunity to teach the basics of investing and how to make your money grow.

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