



Newsletter

OCTOBER 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:

October 15

- Filing deadline for extended 2023 individual and C corporation tax returns

October 31

- Halloween

Achieving financial security for you and your family is no small task. With inflation and the allure of signing up for yet another monthly service, saving money can feel like an uphill battle. In this month's newsletter, read about 5 ideas that can help you save money on your road to building wealth.

Also learn about several tips to protect your Social Security number, why you should think twice before tapping retirement accounts to pay for emergencies, and ideas how to avoid tax traps in loans to friends and family.

Please pass this information on to anyone that may find it useful and call if you have any questions or concerns.

5 Ideas to Help Save Money

Creating a sound financial foundation for you and your family is anything but easy. It is tough to save when everyone is tempting you with adding one monthly service after another. Add to that the high increases in things like property taxes and insurance and you realize that saving is becoming more of an art form than a great habit. So here are some ideas to help build your wealth.

1. **Pay yourself first.** Treat saving money with the same care as you pay your bills. Take a percentage of everything you earn and save it. Using this technique can help build an emergency fund and keep you from living paycheck to paycheck.
2. **Know and use the Rule of 72.** You can roughly calculate the number of years compound interest will take to double your money using the Rule of 72. Do this by dividing 72 by your rate of return to estimate how long it takes to double your money. For example, 10% interest will double an

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5 Ideas to Help Save Money (Cont'd)

investment in 7.2 years; investments with an 8% return will double in nine years. Use this concept to understand the power of saving and investment.

3. **Use savings versus debt for purchases.** Unpaid debt is like compound interest but in reverse. For instance, using a 20% interest credit card to pay \$1,500 for home appliances costs nearly \$1,000 in interest expense if paid back over 5 years (on top of the original \$1,500!). The result is that you have to work harder and earn more to pay for the items you purchase. A better idea is to save and then buy your dream item. Even better, when you save in a high interest account, you put interest to work for you to make the purchase more affordable.
4. **Understand amortization.** When a bank loans you money, it gives you a specific interest rate and a set number of years to pay it back. Each payment you make contains interest as well as a reduction of the amount owed, called principal. Most of the interest payments are front-loaded, while the last few payments are virtually all principal. Making additional principal payments at the beginning of the loan's term will decrease the amount of interest you pay to the bank and help you pay off the loan more quickly.
5. **Taxes are complex and require help.** Tax laws are complicated. They are made even more complex when the rules change, often late in the year. Even worse, the IRS is not in the habit of telling you when you forget to take a deduction. The best way to stay out of the IRS spotlight AND to minimize your taxes is to ask for help.

Tips to Protect Your Social Security Number

Very few things in life can create a higher degree of stress than having your Social Security number (SSN) stolen. This is because, unlike other forms of identification, your SSN is virtually permanent. Here are some things that you can do to minimize the risk of having your number fall into the hands of the wrong people.

- **Never carry your card.** Place your SSN card in a safe place. That place is never your wallet or purse. Only take the card with you when you need it.
- **Know who needs it.** As identity theft continues to evolve, there are fewer people and organizations who really need to know your SSN. Here is that list:
 - ◇ *The government.* Federal and state governments use this number to keep track of your earnings for retirement benefits and to ensure you pay proper taxes.
 - ◇ *Your employer.* Your SSN is used to keep track of your wages and withholdings. It is also used to prove citizenship and to contribute to your Social Security and Medicare accounts.

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Tips to Protect Your Social Security Number (Cont'd)

- ◇ *Certain financial institutions.* Your SSN is used by various financial institutions to prove citizenship, open bank accounts, provide loans, establish other forms of credit, track digital payments, report your credit history, or confirm your identity. In no case should you be required to confirm more than the last four digits of your number.
- **Challenge all other requests.** Many other vendors may ask for your SSN, but having it may not be essential. The most common requests come from health care providers and insurance companies, but requests can also come from subscription services when setting up a new account. When asked on a form for your number, leave it blank. If your supplier really needs it, they will ask you for it. This allows you to challenge their request.
- **Destroy and distort documents.** Shred any documents that have your number listed. When providing copies of your tax return to anyone, distort or cover your SSN. Remember, your number is printed on the top of each page of Form 1040. If the government requests your SSN on a check payment, only place the last four digits on the check, and replace the first five digits with Xs.
- **Keep your scammer alert on high.** Never give out any part of the number over the phone or via email. Do not even confirm your SSN to someone who happens to read it back to you on the phone. If this happens to you, file a police report and report the theft to the IRS and Federal Trade Commission.
- **Proactively check for use.** Periodically check your credit reports for potential use of your SSN. If suspicious activity is found, have the credit agencies place a fraud alert on your account. Remember, everyone is entitled to a free credit report once a year. You can obtain yours on the Annual Credit Report website.

Replacing a stolen SSN is not only hard to do, it can create many problems. Your best defense is to stop the theft before it happens.

Think Before Tapping 401(k)s and IRAs as Emergency Fund

All Americans are now allowed to withdraw up to \$1,000 every year from retirement accounts to pay for a broad range of emergency expenses. There are several reasons, however, why you should avoid tapping your retirement accounts at all costs.

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Think Before Tapping 401(k)s and IRAs as Emergency Fund (Cont'd)

Reasons to leave retirement funds alone

- **You're diluting your retirement savings.** Although the money comes in handy now, you're chipping away at your nest egg and forfeiting growth. For example, if you withdraw \$100,000 that would earn 6% annually tax-deferred for ten years, you give up a whopping \$79,000 in lost earnings!
- **It may be bad timing.** Experts say it's difficult to time the markets in the current volatile environment. If you sell some holdings right now, you may be locking in losses that would miss future appreciation.
- **You still owe income tax.** Even if it's for an emergency, income tax is due on all withdrawals from traditional 401(k)s and IRAs.
- **You may also owe a penalty.** You may have to pay a 10% penalty on your withdrawal if it doesn't qualify for an IRS-defined exception.

Ideas to find cash

Instead of tapping into retirement funds, here are some ideas to generate the cash you need:

- **Sell unwanted items.** Take a look around your home for items that you no longer use such as clothes, electronics, or furniture, and sell them through an online marketplace.
- **Rent out a room or other property.** If you have extra space in your home, consider renting it out or finding a more long-term tenant. Be sure to check with your local government for rules on short-term rentals.
- **Freelance or gig work.** Many companies are looking for part-time workers and independent contractors instead of committing to a full-time employee. Consider reaching out to local businesses to offer your expertise, in addition to creating an online profile through platforms that are popular for consultants.

Avoid Tax Traps in Loans to Friends and Family

Lending to friends and relatives is a tricky business, and not only because of the stress it can place on your relationships. There are tax issues involved as well. If you have to lend money to someone close, here are some tips to do it right in the eyes of the tax code.

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Avoid Tax Traps in Loans to Friends and Family (Cont'd)

Charge interest

Yes, you should charge interest, even to friends and family. If you don't charge a minimum rate, the IRS will imply interest in the loan and tax you for the interest they assume you should be getting. This can occur even if you're not actually getting a dime.

Charge enough interest

Not only should you charge interest, the amount must be reasonable in the eyes of the IRS. If it's not, the IRS will imply interest at their minimum applicable federal rates (AFRs). To stay on the safe side, always charge an interest rate at or above these AFRs, available on the IRS website. The good news is these interest rates are low and almost always below the prime interest rate.

Know the exceptions

If you don't want to charge interest, you don't have to IF:

- **The money is a gift.** You and your spouse can each give up to \$18,000 to an individual each year (this maximum remains \$18,000 in 2024).

OR:

- **The loan is less than \$10,000** and is not used to purchase income-producing property.

If you don't charge interest and the loan is used to purchase income-producing property such as capital equipment or to acquire a business, special tax rules apply. In this case it's good to ask for assistance.

Get it in writing

If you expect repayment, write out the terms of your loan. There are a variety of basic loan document formats online that you can use. Creating a loan document may seem unnecessarily formal when dealing with a friend or family member, but it's important for two reasons.

1. **It documents your tax code compliance.** By documenting the terms and charging a stated interest rate you can clearly show you are within tax code rules.
2. **You avoid misunderstandings.** Creating a written document will make it clear that it is a real loan, not an informal gift. Your friend or relative will know that you expect to be paid back and when you expect repayment.

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Taming Monthly Bill Creep

You notice one of your monthly expenses just went up from \$25 to \$28. Six months later and you're now paying \$35. Fast forward another 18 months and now the charge is \$50 a month. If you have an expense on autopay, you may go several months without noticing that one of your monthly expenses doubles in price.

Here are some tips to help you tame monthly bill creep and avoid a price-hike surprise.

- **Investigate your recurring services.** Start by taking stock of every service you're currently using. Review your bank and credit card statements, and highlight all the charges that look like a subscription. Some examples to look for are streaming services (video, music and games), magazines, news subscriptions, digital storage services, gym memberships, and financial services. Determine if you have redundant subscriptions, such as multiple music-streaming services. Finally, ask yourself if each service is still providing value to you. If it's not, cancel it.
- **Review bills for unnecessary fees.** Once you trim your list down to the services you want to keep, locate the most recent bill for each. Read through all the charges and make notes of those that are questionable. You might be paying for services you aren't using, such as a video streaming service on your cell phone bill. Or maybe you're paying replacement insurance coverage for something you don't need. For every charge that doesn't make sense, call and ask the provider to cancel it.
- **Bundle expenses when you can.** Many suppliers provide multiple services and will offer discounts if you sign up for a few of them. Bundling your cable TV, internet and home phone is a common example of this. Other places to look for bundling opportunities are cell phone providers and insurance companies.
- **Negotiate for lower rates.** Call each provider and ask for a lower rate or discount. Most companies want to keep your business, so they will often work with you. Service providers routinely change the way they package their products, so saving money might be as simple as changing to a different level of service. It's rare for companies to reach out and offer savings, so you need to make the call!

It's easy for your bills to spiral out of control if you don't keep close tabs on them. Go through a review exercise every few months to ensure you aren't paying more than necessary.

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.