Newsletter

MARCH 2025

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 17

- Due date for partnership and S corporation tax returns (Forms 1065, 1120S)

Reminders

- Daylight savings time begins Sunday, March 9

With a tax code that's now up to 6,871 pages, you may not be too shocked to learn that the IRS has more than 1,000 tax forms to help you report every conceivable type of income you may earn.

With so many tax forms to keep track of, it's easy to lose track of one every now and then. To lend you a helping hand this tax season, this newsletter edition goes through several pieces of tax return information that are easy to miss.

Also read about how tax laws scheduled to expire at the end of 2025 may leave you with a higher tax bill and how banks try to avoid paying loyal customers top interest rates.

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

Tax Return Information That's Easy to Miss

To ensure your tax return is filed quickly and without error, double-check this list of commonly-overlooked items. These little pesks are among the commonly missed items reported as hold ups to filing individual tax returns:

- **Missing forms.** Using last year's tax return as a checklist, double check that all your W-2s and 1099s are received and applied to your tax return. Missing items here will be caught by the IRS mismatch program, creating an unwanted correspondence audit. If you are missing a form, contact the company responsible for issuing them as soon as possible.

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Tax Return Information That's Easy to Miss (Cont'd)

- **Dependent information**. If you added a new dependent in 2024, provide the name, Social Security number and birth date to have them added to your tax return. If you have a dependent that shares custody with someone else, discuss the plan for who is going to claim this person. Your tax return cannot be filed if there is a conflict in this area.

- **Cost basis information.** If you sold any assets (typically investments or real estate), you need to know how much it cost you to determine your taxable capital gain or loss. Check your investment statements to ensure that your broker includes the required information and that you believe it is accurate. Sometimes it's difficult to find this information on the Form 1099-B summary, but it might be listed later in the statement details.

- **Schedule K-1s.** As an owner of a partnership or S corporation, you will need to receive a Form K-1 that reports your share of the profit or loss from the business activity. When you receive your K-1, pay special attention to box 17 (code V) for S corporations and box 20 (code Z) for partnerships. This is where information is included for the Qualified Business Income Deduction.

- **Digital asset transactions.** If you are buying or selling cryptocurrency or other digital assets, provide details to support the cost basis and sales price of each transaction.

- **Forms or documents with no explanation.** If you receive a tax form, but have no explanation for the form, questions will arise. For instance, if you receive a retirement account distribution form, it may be deemed income. If it is part of a qualified rollover, no tax is due. An explanation is required to file your information correctly.

- **Missing signatures.** Both you and your spouse need to review and sign the e-file approval forms before the tax return can be filed. The sooner you review and approve your tax return, the sooner it can be filed.

By knowing these commonly missed pieces of information, hopefully your tax filing experience will be a smooth one.

Tax Uncertainty Requires Preparedness

You will soon have to confront a higher tax bill if Congress doesn't extend many credits, deductions, and lower tax rates that are set to expire at the end of this year. Here's who should be considering ongoing tax planning sessions as this uncertainty plays out in Congress and the Executive office:

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Tax Uncertainty Requires Preparedness (Cont'd)

- **Your income will increase in 2025.** Maybe you are looking to move jobs or obtain a promotion. This should trigger a planning session as marginal rates currently max out at 37% at a fairly high income, but that could all change beginning in 2026.
- **You were an itemized deductions taxpayer.** A number of taxpayers may begin itemizing deductions again in 2026 if the rules expire as they are currently scheduled to. This means planning your expenses in light of this impending roll back of rules will take some thought. This is especially true if you have high state income and real estate taxes.
- **You have a large estate.** The current estate exemption ($13.99 million in 2025 for single taxpayers, $27.98 million for married) drops back to $5 million in 2026. While this reset amount will be adjusted for inflation going forward, gifting money or other assets can help reduce the size of your taxable estate while taking advantage of this historically high exemption amount.
- **You have investments.** Review your investments to be as tax efficient as possible. Municipal bonds and tax-deferred plans like 401(k)s and IRAs may also become more attractive after 2025. Also consider tax-loss harvesting strategies to offset future gains. Another idea: if your tax rate will be lower in 2025 compared to 2026, consider selling appreciated assets in 2025 at a lower tax rate, then immediately purchase the asset again. Remember that wash sales rules only apply to losses, not gains!
- **You have pass-through business income.** If you are a small business owner, assess how the loss of the Qualified Business Income deduction will affect your tax liability. Review whether you should change your entity type to minimize the loss of this deduction.

By starting to plan now, you can be ready for whatever tax environment you'll be navigating in 2025.

The New Banking Problem

Everyone needs to be aware and alert

Immediate Required Action: *Review your savings account interest rate and take necessary action to avoid potential deceptive, unreasonable, and obscure rules that are keeping your money from making a reasonable interest rate!*

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The New Banking Problem (Cont'd)

Background

When interest rates rose due to inflation, banks and credit unions quickly raised their interest rates on credit cards, mortgages and loans, but were reluctant to reward loyal customers with higher interest on their deposit balances. They simply decided to put the extra profit in their pockets or were afraid they could not afford to pay market interest on their deposits.

These *deceptive* and *unreasonable* practices are words used by the Consumer Financial Protection Bureau (CFPB) in describing one bank's practice to avoid paying market rates to many of their loyal depositors. So which tricks are being used?

Some common practices

- **The mirror trick.** Create a new savings account with a similar name to one that earns less than ½ of one percent of interest. But the new account gets a much higher interest rate (allegedly 14 times higher!). Then, don't be great at telling the current account holders, so they do not realize they are being grossly underpaid for their deposits. *Example: Capital One (See CFPB lawsuit)*

  Why do this? *It dramatically lowers the bank's interest expense since they do not roll the old, low interest accounts into the new, higher interest account. But they still offer a competitive savings product to attract new money.*

- **The CD trap.** Grossly underpay those with savings deposits, especially small, local businesses. Instead, offer CDs with better interest rates. Then introduce *EXTREMELY* high early withdrawal penalties (compared to traditional early withdrawal penalties historically used on CDs.) *Classic examples: Chase Bank and US Bank, but there are many more!*

  Why do this? *It makes it a lot easier for the bank treasury group to forecast the bank's net interest income spread, as their deposit interest expense is more predictable.*

- **The trained seal mirror trick.** A major national credit union took the mirror trick above, then created additional rules to ensure ONLY new money gets the better interest rate. So they only make the new, similarly named, high interest bearing account available to *NEW* deposits into the credit union. So, no transferring funds from another internal account to get the higher interest.

  PLUS, you are required to set up automatic deposits in the account each month to obtain the best interest. To get the high rate, you need to transfer your money out of the bank, then keep it somewhere else for a time, then transfer it back. In other words, you need to be trained in the tricks to get the reasonable interest rate. Just like a seal.

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Newsletter

The New Banking Problem (Cont'd)

Why do this? *Banks don't want to pay these higher interest rates on existing deposits.*

What to do now

- **Understand the impact.** If you aren't watchful, your savings account is earning much less than 1 percent interest when you could be earning over 4 percent in a similar account *EVERY DAY*.
- **Fight inertia.** What all these tricks have in common is the benefit of inertia. These practices are commonly used by cell phone companies. They give the best deal to the new guy while gently deceiving their long-term subscribers. When is the last time you looked? Well, look now!
- **Find the right account.** Often the answer is within your bank by getting into the right account. But you may find it is at another institution. Be willing to set up the right account at the right place. Current high yield savings rates with FDIC coverage range from 3.5% to 4.8%.
- **Develop fluid management.** With secure online transfers, it is now easier than ever to keep your money working hard for you (using high interest rates). This also includes moving excess funds in your checking account. So securely link these accounts, actively monitor them, and transfer your funds to their best use at the highest interest rate. You'll be amazed at how much interest income you can earn!

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.