Freddi Eberhart & Associates Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Newsletter

May 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:

May 26

- Memorial Day

Now that the April 15th tax filing deadline has come and gone, you could wait until January to think about taxes again – but that's a bit like waiting until the night before a major exam to start studying...you *might* get through it, but it probably won't yield the best results. If you want a smaller tax bill in 2025, consider starting now to come up with a strategy.

In this month's newsletter, we've included four areas to review as you begin creating your 2025 tax plan.

Also in this edition, read through estate planning tips for every family, and few tips how to keep great business records.

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

Time to Start Your Tax Planning

Lowering your tax bill next year works best as a planned event. So if you are interested in breathing a sigh of relief come next April, consider a review of these four areas as you create and implement your tax plan for 2025.

#1 – Your Home

Your home can create unexpected tax liabilities. Property value appreciation, home improvements, and refinancing your mortgage influence how much tax you pay.

When your home's value increases substantially, you might pay higher property taxes. Selling a home can also lead to capital gains taxes if you've lived in the property for less than two years or exceed the home sale exclusion amounts.

Tax Planning Tips for Your Home:

- Get a professional property assessment to ensure you're not overpaying property taxes. If so, know your

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Time to Start Your Tax Planning (Cont'd)

location's time frame and process to amend your property's value in their formula.

- Consider timing home improvements to manage potential tax consequences by being smart about when assessments are applied in your location's property value.
- If selling, understand capital gains exclusion rules ($250,000 for single taxpayers, $500,000 for married couples)

#2 – Your Investments

Review your refinance closing disclosure to identify deductible mortgage points or fees.

Investment income can impact your tax bill. Capital gains, dividend distributions, and frequent trading can all cause tax consequences.

Different investments also face different tax rates: Short-term capital gains get taxed at higher ordinary income rates and long-term gains typically receive more favorable treatment.

Tax Planning Tips for Your Investments:

- Implement tax-loss harvesting to offset capital gains
- Hold investments for more than a year to qualify for long-term capital gains rates
- Consider tax-efficient investments like index funds or ETFs
- Maximize contributions to tax-advantaged accounts like 401(k)s and IRAs

#3 – Your Retirement

Retirement accounts offer financial opportunities. But they can also cause tax pitfalls. Required minimum distributions (RMDs), early withdrawal penalties, and the tax treatment of different retirement account types influence your tax bill.

Tax Planning Tips for Your Retirement Accounts:

- Understand RMD rules and plan withdrawals strategically. Sometimes the most cost-effective plan withdrawals occur long before the RMD rules come into play!
- Consider tax-efficient Roth conversions to manage future tax liability

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Time to Start Your Tax Planning (Cont'd)

- Maximize health savings account (HSA) contributions as an additional retirement account
- Explore catch-up contributions if you're age 50 or older

#4 – Your Life Events

Major life changes can dramatically change your tax situation. Marriage, divorce, having children, changing jobs, or experiencing significant income shifts can all reshape your tax liability.

Tax Planning Tips for Life Changes:

- Reassess your filing status as life changes may affect your tax bracket and deductions
- Track new deductions and credits as life events like adoption or education expenses may qualify for specific tax breaks
- Understand the age triggers built into the tax code and plan accordingly. This is especially important to understand as your children get older.

Sometimes your tax plan will show you an unavoidable, upcoming tax event, but you can plan for it to avoid a surprise. But other times your plan can help lower your tax liability, so it is best to begin as soon as possible.

Estate Planning: Tips for Every Family

If juggling priorities were an Olympic sport, young parents would win the gold medal. Raising kids, advancing careers, paying off student loans, and saving for a home is a lot. All this makes estate planning feel like a tomorrow problem.

But estate planning puts you in charge of your family's financial future if the unexpected happens.

Here are three ways you can protect your family's future by starting your estate planning today.

Protect your current income

Your current income is the fuel that keeps your household going. Here are several ideas to protect your earnings:

- **Minimize tax liabilities** using tools such as trusts or family limited partnerships can shield assets

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Estate Planning: Tips for Every Family (Cont'd)

from estate or capital gains taxes.

- **Protect against lawsuits and creditors** by structuring ownership through legal entities or trusts. These separate legal entities can make it harder for lawsuits or creditors to reach your personal income or business revenue.
- **Ensure income continuity if incapacitated.** With powers of attorney and living trusts in place, you can tap someone you trust to manage your income and financial affairs if you're unable to do so.

Protect your future income

Estate planning isn't just about distributing assets - it's a proactive way to secure financial stability down the road. Here are several ideas to protect your future income.

- **Preserve wealth using tax planning strategies.** Trusts, retirement accounts, and gift giving can minimize your future estate and income taxes, helping you retain more of your earnings over time.
- **Safeguard business and investment income.** Planning for succession or setting up buy-sell agreements ensures that income from businesses or investments can continue in the future, even after death or incapacity.
- **Provide long-term control over assets.** Set specific terms in wills or trusts to dictate how and when income-generating assets are used. This can protect them from mismanagement or being wasted in short order.

Protect your children

Estate planning isn't just about money – it's also about protecting your kids if something happens to you. Here are several ways to protect your children.

- **Ensure guardianship.** If you pass away or become incapacitated, a will lets you name who should raise your children. Without this, the decision goes to the courts, and a judge will choose a guardian. Naming someone in your estate plan ensures your children are raised by someone you trust, in a stable and familiar environment.
- **Control their inheritance.** A well-structured estate plan allows you to manage how and when your children receive their inheritance. For example, you can create a trust and decide when to distribute money and for what purposes, such as education, health care, or buying a home.

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Estate Planning: Tips for Every Family (Cont'd)

- **Minimize conflict.** When your wishes are clearly written in legal documents, it leaves less room for disagreements among family members. This can help prevent costly legal battles or emotional fights over who should care for the kids or how money should be used.

Many people believe estate planning is only for the very wealthy. But as you can see, managing an estate is important for everyone, regardless of income level. Consider reviewing your situation with a qualified expert and help create peace of mind for yourself and your loved ones.

Keep Great Business Records with These Tips

Your bookkeeping system is the financial heart and lifeblood of your business. When set up and operating properly, your books help you make smart decisions and seamlessly turn your financial data into useful information. Here are four key characteristics to building and maintaining a healthy bookkeeping system:

- **Select the proper accounting method.** There are two different methods for recording transactions: cash-basis and accrual-basis. In general, the cash-basis method records a transaction when a payment is made, while the accrual-basis method books the transaction upon delivery of the good or service. Cash-basis is easier to track and a useful option for smaller businesses and sole-proprietors. Larger businesses who buy from vendors on account (accounts payable) generally use accrual-basis accounting.

Selecting the proper method affects any related financial transactions and how your financial statements are displayed. A correct approach will also include consideration of outside factors, including IRS rules (businesses with more than $25 million in gross receipts must use accrual-basis), bank covenants, and industry standards. Once a choice is made, it can be changed but it must be properly reported to the IRS.

- **Create an account structure that fits the company.** Every business has a chart of accounts included in their bookkeeping system. These accounts sort the business's transaction data into six meaningful groups. They are assets, liabilities, equity, income, cost of goods sold and other expenses. Each group will often have numerous accounts and sub-accounts associated with them.

Having the right mix of accounts, created and grouped in an organized fashion, will help you properly classify transactions and prepare usable financial statements. The proper account structure for your company will mesh with your specific information needs.

- **Enter accurate and timely transactions.** The value your data provides is dependent on each transaction being recorded correctly and on time. Entering transactions in the wrong account can cause major issues down the road. Financial reporting that is delayed can hide problems that need immediate attention. Some transactions are relatively straightforward, and some are more complex

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Keep Great Business Records with These Tips (Cont'd)

(like payroll, accruals and deferrals).

It's important to have someone who understands both your business and the accounting rules to enter your transactions in a timely fashion. In addition, a good month-end close process that involves reviewing each account will help you identify and fix mistakes from the initial entries.

- **Establish financial statements for decision-making.** The main financial statements are the income statement (income - expenses = gross profit), the balance sheet (assets - liabilities = equity) and statement of cash flow. Each statement has a specific purpose:
  - *Income statement.* The income statement shows company performance for a select period of time, typically monthly with a full-year summary. At the end of each year the income statement restarts.
  - *Balance sheet.* The balance sheet displays a company's overall health on a specific date. It is perpetual. This means it doesn't end until the business is closed or sold. It includes one line that summarizes the current year and prior year results from the income statement.
  - *Statement of cash flow.* This statement summarizes the inflows and outflows of cash. It ensures you know whether you have enough cash and the pattern of your cash position over time.

If properly executed, your bookkeeping system will create accurate financial statements that can be used to make key financial decisions. Feel free to call with any questions or to discuss bookkeeping solutions for your business.

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