Freddi Eberhart & Associates Inc.
CERTIFIED PUBLIC ACCOUNTANTS

# Newsletter

JUNE 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:**

**June 14**

- Flag Day

**June 15**

- Father's Day

**June 16**

- Second quarter 2025 estimated tax payments are due

The tax code isn't just long – it's tricky. For every deduction or credit that can lower your bill, there's a sneaky rule waiting to catch you off guard. In this issue, learn about several common tax traps that can surprise anyone.

Also in this issue: If you're picking up a seasonal job, we break down how that extra income could impact your taxes. We're also pulling back the curtain on credit card fine print - revealing what banks don't always advertise.

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

## Watch Out For These Tax Surprises

Our tax code contains plenty of opportunities to cut your taxes. There are also plenty of places in the tax code that could create a surprising tax bill. Here are some of the more common traps.

- **Home office tax surprise.** If you deduct home office expenses on your tax return, you could end up with a tax bill when you sell your home in the future. When you sell a home you've been living in for at least 2 of the past 5 years, you may qualify to exclude from your taxable income up to $250,000 of profit from the sale of your home if you're single or $500,000 if you're married. But if you have a home office, you may be required to pay taxes on a proportionate share of the gain.

  For example, let's say you have a 100-square-foot home office located in a garage, cottage or guest

~ Continued on Page 2 ~

2237 DOUGLAS BLVD., STE 120 ROSEVILLE, CA 95661
PHONE: 916.580.2120 FAX: 916.580.2114 WEB: WWW.FREDDICPAS.COM

## Watch Out for These Tax Surprises (Cont'd)

house that's on your property. Your main house is 2,000 square feet, making the size of your office 5% of your house's overall area. When you sell your home, you may have to pay taxes on 5% of the gain. (TIP: If you move your office out of the detached structure and into your home the year you sell your home, you may not have to pay taxes on the gain associated with the home office.)

Even worse, if you claim depreciation on your home office, this could add even more to your tax surprise. This depreciation surprise could happen to either a home office located in a separate structure on your property or in a home office located within your primary home. This added tax hit courtesy of depreciation surprises many unwary users of home offices.

- **Kids getting older tax surprise.** Your children are a wonderful tax deduction if they meet certain qualifications. But as they get older, many child-related deductions fall off and create an unexpected tax bill. And it does not happen all at once.

  As an example, one of the largest tax deductions your children can provide you is via the child tax credit. If they are under age 17 on December 31st and meet several other qualifications, you could get up to $2,000 for that child on the following year's tax return. But you'll lose this deduction the year they turn 17. If their 17th birthday occurs in 2025, you can't claim them for the child tax credit when you file your 2025 tax return in 2026, resulting in $2,000 more in taxes you'll need to pay.

- **Limited losses tax surprise.** If you sell stock, cryptocurrency or any other asset at a loss of $5,000, for example, you can match this up with another asset you sell at a $5,000 gain and - presto! You won't have to pay taxes on that $5,000 gain because the $5,000 loss cancels it out. But what if you don't have another asset that you sold at a gain? In this example, the most you can deduct on your tax return is $3,000 (the remaining loss can be carried forward to subsequent years).

  Herein lies the tax trap. If you have more than $3,000 in losses from selling assets, and you don't have a corresponding amount of gains from selling assets, you're limited to the $3,000 loss.

  So if you have a big loss from selling an asset in 2025, and no large gains from selling other assets to use as an offset, you can only deduct $3,000 of your loss on your 2025 tax return.

- **Planning next year's tax obligation tax surprise.** It's always smart to start your tax planning for next year by looking at your prior year tax return. But you should then take into consideration any changes that have occurred in the current. Solely relying on last year's tax return to plan next year's tax obligation could lead to a tax surprise.

Please call to schedule a tax planning session so you can be prepared to navigate around any potential tax surprises you may encounter on your 2025 tax return.

**~ Continued on Page 3 ~**

## Seasonal Jobs and Taxes: What You Need to Know

Summer work can be financially rewarding, but it can also come with tax consequences that are sometimes overlooked. Here are several ideas for managing your tax obligations that come with seasonal jobs.

- **Keep it separate.** If you mow lawns, babysit or do another cash job where you haven't filled out a Form W-4 for tax withholdings, the IRS may consider you to be a business for tax purposes. If you are considered to be in business, it's a good idea to keep your business transactions separate from personal transactions. If you do comingle both types of transactions, the IRS may disallow all business expenses and leave you with a much higher tax bill.

- **Document your driving.** If you are driving for business purposes, document your mileage as it happens. The IRS allows 70 cents a mile for the portion of driving time you spend on business use. Use an app or driving log to record your business driving, and don't forget to hang on to all receipts.

- **Keep your receipts.** If you want to deduct a business expense, you need to prove that you paid for it. The IRS says any recordkeeping system is okay as long as it clearly shows your expenses. Keep receipts, canceled checks, bank statements and other easy-to-understand records of what you spent the money on and when. Many bookkeeping and accounting systems can help digitize these records, making them easier to corral for tax time.

- **Calculate your estimated tax bill.** Plan to file a tax return (it may be your first return) early next year. Depending on how much you make the rest of the year, you may get back every dollar that was withheld from your paychecks for taxes. If you were self-employed for your summer job, remember that you'll need to set aside some of your earnings to pay federal, state, and local taxes.

- **Remember that all income is taxable.** No matter how you earn your money, all earned income is taxable. Even tips, cash payments and income from freelance platforms must be reported on your tax return. If you receive a W-2 from an employer, the income is automatically reported to the IRS. If you freelance work, you might receive a 1099 form. But even if you don't get a 1099, you're still responsible for reporting all income you earn.

Summer work can provide much more than a temporary income boost — it can also be an opportunity to build good financial habits. By staying mindful of your tax obligations, you can avoid tax surprises and enjoy your hard-earned money.

## What Banks Don't Tell You About Credit Cards

Credit cards may offer convenience and opportunities to build credit, but they also come with terms and

**~ Continued on Page 4 ~**

## What Banks Don't Tell You About Credit Cards (Cont'd)

conditions that aren't always advertised. Here are several credit card secrets that banks may not tell you about.

- **Minimum payments are a trap.** Banks design minimum payments to look appealing (typically 2% to 3% of your balance). But paying only the minimum allows interest to grow on your remaining balance, which can result in you paying two or three times (or more!) of the original purchase price over time. If possible, pay your credit card balance in full each month.

- **Interest rates are negotiable.** If you've been a reliable customer and consistently make payment on time, there's a good chance your bank might lower your annual percentage rate if you ask. Simply call the customer service number on the back of your card and ask if you can lower your rate. Banks prefer to keep loyal customers rather than risk losing them to competitors.

- **The high cost of rewards programs.** Banks design these programs to encourage spending, which increases the likelihood that cardholders will carry a balance and pay interest. Some rewards cards also have high annual fees that can erode the value of the rewards you earn. To truly benefit from rewards programs, only use your card for planned purchases and pay off the balance in full each month.

- **Late fees are avoidable.** Many credit card issuers offer a grace period for late payments. If you miss your payment due date, call your bank immediately and explain the situation. This can often result in the bank waiving its late fee, especially if it's your first offense. Banks don't widely advertise this because they profit significantly from late fees.

- **Introductory offers have strings attached.** Offers like 0% interest or bonus rewards often come with terms and conditions that are easy to overlook. For example, some rewards programs require you to spend a certain amount within the first three months to qualify for the bonus. If you don't read the fine print, you might miss out on the offer or end up spending more than you intended. Always understand the requirements before applying for a new card.

- **Banks monitor your spending habits.** Banks track your spending patterns and use this data to their advantage. For example, if you consistently pay off your balance in full, you might not be as profitable to them, which could result in fewer promotional offers. On the other hand, customers who carry balances and pay interest may receive more marketing for additional financial products. Being mindful of your spending habits can help you avoid falling into costly traps that are pushed by banks.

**~ Continued on Page 5 ~**

## What Banks Don't Tell You About Credit Cards (Cont'd)

Credit cards can be a valuable financial tool, but only if you understand how they work and how to avoid the hidden pitfalls. By paying off your balance in full, negotiating fees and rates, and leveraging rewards strategically, you can take control of your credit card rather than letting it control you.

## Be Prepared for Surprise Business Expenses

Getting a bill for an unexpected expense can put a dent in your business's cash flow. Here are some tips your business can use to handle these unforeseen bumps in the road.

- **Stick to a reconciliation schedule.** Know how much cash you have in your bank account at any given time. This is done by sticking to a consistent bank reconciliation schedule. Conventional wisdom suggests reconciling your bank account with bills paid and revenue received once a month, but you now have the ability to reconcile your cash every day. Perpetual reconciliation is easier to do if your business has fewer transactions. It may seem a bit much, but with the correct team in place, you will be prepared for surprises as they happen.

- **Create a 12-month rolling forecast.** This exercise projects cash out twelve months. Each new month you drop the prior month and add another month one year out. This type of a forecast will reflect the ebbs and flows of cash throughout the year and identify times that you'll need more cash, so when a surprise bill shows up, you know exactly how it will impact your ability to pay it. If you have lean months, you may wish to explore creating a line of credit with your bank to be prepared for any surprises.

- **Build an emergency fund.** Getting surprised with an unexpected business expense isn't a matter of if it will happen, but when. Consider setting money aside each month into an emergency fund to be used only in case of a significant expense. A longer term goal could be to save enough money to cover 3 to 6 months of operating expenses.

- **Partner with a business advisor.** Even small businesses sometimes need help keeping their cash flow in line and avoiding unexpected expenses. Please call if you have any questions about organizing your business's cash flow and preparing for surprises.

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.*