Newsletter

JULY 2026

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 19

- National Ice Cream Day

July 26

- Parents' Day

Many Americans are taking on side hustles and part-time jobs to boost their income. While earning extra money can help pay for vacations or provide a financial cushion for your family, it can also increase your tax bill.

In this month's newsletter, learn how additional income may affect your tax situation and discover strategies to help avoid costly surprises when tax season arrives. Also get the answers to several common tax questions.

As always, feel free to call if you wish a review of your situation and pass this information along to someone who might find it useful.

Avoid the Tax Pitfalls of Adding Extra Income

Earning extra income feels great until tax season arrives. A second job, freelance project, or growing side hustle can change how you're taxed in ways many people don't expect. Here are several rules to understand that will help you avoid the tax pitfalls of adding extra income.

Know whether you're an employee or independent contractor

Potential tax pitfalls: Many contractors and freelancers assume they're being taxed the same way they are at their day job. Then tax season arrives and they discover no one was setting aside money for Social Security, Medicare, or income taxes. In some cases, workers are even surprised to learn they were classified differently than they expected.

~ Continued on Page 2 ~

Avoid the Tax Pitfalls of Adding Extra Income (Cont'd)

What you can do: *Before accepting additional income, ask how you'll be paid and whether you'll receive a Form W-2 or Form 1099. A short conversation upfront can prevent a much longer conversation when you prepare your tax return.*

Employee income isn't always simple

Potential tax pitfalls: Your employer withholds Social Security and Medicare taxes from your paychecks, which makes payroll taxes feel largely automatic. The problem starts when you add a second job or other side income. Each employer calculates withholding as if it's your only source of income, which can leave you short when everything gets added together on your tax return. Some workers may also receive tax forms other than a traditional W-2, creating another opportunity for confusion.

What you can do: *Review your withholdings whenever you add a new income stream. A quick check during the year is much easier than finding out in April that your paycheck withholding wasn't keeping pace with your total earnings.*

Contracting income means more responsibility

Potential tax pitfalls: Receiving a 1099 often feels very different from receiving a paycheck because no taxes are being withheld along the way. You're responsible for both sides of Social Security and Medicare taxes, which can make the final tax bill larger than expected. Mixing business and personal spending can also make it harder to identify expenses that could reduce taxable income.

What you can do: *Keep business income and expenses separate from personal spending, whether that means opening a dedicated account or tightening up the one already in place. And if additional income becomes regular, build estimated tax payments into the routine instead of treating them as a year-end problem. A quick estimate during the year can help decide whether quarterly payments make sense.*

Extra income can create new opportunities, but it also introduces new tax responsibilities. A little planning now can help keep more of what you earn and prevent unpleasant tax surprises later. Call if you have questions about your extra income.

Common Tax Questions

Here are several common tax questions and their answers. But like most things, there can be exceptions, so if in doubt always ask for help.

Is money earned through Venmo, PayPal, or Cash App taxable?

It depends on why you received the money. Payments from friends for splitting dinner or reimbursing expenses are not taxable. However, money received for selling goods or providing services is generally

~ Continued on Page 3 ~

Common Tax Questions (Cont'd)

taxable income and may be reported to the IRS on Form 1099-K.

Do I have to pay taxes if I sell items online?

Maybe. Selling personal items for less than you originally paid generally doesn't create taxable income, although the sale may still be reported to the IRS. If you sell items for a profit, the gain is usually taxable and should be reported on your tax return.

Can I deduct expenses for working from home?

Employees cannot claim a federal deduction for home office expenses. Self-employed workers may qualify if part of their home is used regularly and exclusively for business purposes. The deduction can include a portion of rent, utilities, insurance, and other eligible costs.

Is cryptocurrency taxable?

The IRS treats cryptocurrency as property, not currency. Selling crypto, trading one cryptocurrency for another, or using crypto to purchase goods and services can all create gains or losses that must be reported on your tax return. Even receiving cryptocurrency as payment, mining rewards, staking rewards, or certain promotional incentives may be taxable and must be reported on your return.

Is my tip income taxable?

Tips are still considered taxable income and must still be reported. However, under the One Big Beautiful Bill Act, many workers in occupations that customarily receive tips can claim a federal income tax deduction for qualified tip income through 2028. To qualify for the deduction, tips must be reported on Form W-2, Form 1099, or other approved reporting methods, and the worker must be employed in a qualifying occupation designated by the IRS. The deduction is limited to $25,000 per year and begins phasing out for higher-income taxpayers. Social Security and Medicare taxes still apply.

How much of my overtime pay is deductible?

Under the One Big Beautiful Bill Act, workers may deduct the overtime premium portion of qualified overtime pay through 2028. In a typical time-and-a-half situation, only the extra half-time portion is deductible, not the employee's entire overtime paycheck. For example, if you normally earn $20 per hour and are paid $30 per hour for overtime, only the additional $10 premium qualifies. The deduction is capped at $12,500 annually ($25,000 for joint filers) and phases out at higher income levels. Social Security and Medicare taxes still apply.

~ Continued on Page 4 ~

Common Tax Questions (Cont'd)

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 2026 tax return.

A Mid-Year Checklist for Small Business Owners

Summer reveals what January planning can't – which goals survived contact with customers, cash flow, and capacity. A mid-year review helps turn these lessons into better decisions for the months ahead. Here are several areas to consider evaluating before the second half of the year begins.

Financial performance

- **Revenue and sales goals.** Compare your year-to-date revenue against the goals you set at the beginning of the year. If you're ahead or behind schedule, now is the time to adjust your expectations and strategy.

- **Profit margins.** Revenue growth doesn't always translate into profitability. Review margins across products and services to identify areas where rising costs may be reducing returns.

- **Cash flow health.** Cash flow issues can develop even when sales are strong. Evaluate receivables, payables, and cash reserves to ensure your business remains financially flexible.

Employee and team performance

- **Staffing levels and workforce needs.** Consider whether your current team has the capacity to support business goals through the rest of the year. Growth, turnover, or changing priorities may require adjustments.

- **Employee engagement and retention.** Mid-year is a good opportunity to gauge morale and identify potential retention concerns. Simple conversations with employees can reveal issues before they become costly problems.

- **Training and development progress.** Review the skills your team has gained so far this year and identify any gaps that could limit performance. Investing in employee development can improve both productivity and retention.

Customer experience and marketing

~ Continued on Page 5 ~

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Newsletter

A Mid-Year Checklist for Small Business Owners (Cont'd)

- **Customer satisfaction.** Customer reviews, surveys, and support requests can provide valuable insights into the customer experience. Look for recurring themes that may require attention.

- **Customer retention and loyalty.** Acquiring new customers is important, but retaining existing ones is often more profitable. Review repeat purchase rates and customer retention trends to understand long-term customer value.

- **Marketing effectiveness.** Evaluate which marketing activities are generating results and which are falling short. Redirecting resources toward the most effective channels can improve return on investment.

Operations and productivity

- **Operational efficiency.** Examine daily workflows to identify bottlenecks, redundancies, or unnecessary complexity. Small process improvements can create meaningful gains over time.

- **Technology and systems.** Review the tools and systems your business relies on every day. Outdated software, manual processes, or underused technology may be limiting growth and efficiency.

Products and services

- **Product and service performance.** Analyze which offerings are driving revenue, profitability, and customer interest. Mid-year is an ideal time to refine, expand, or retire products and services based on actual performance rather than assumptions.

A mid-year review doesn't need to be complicated. By looking at the right areas now, your business can make practical adjustments, protect momentum, and enter the second half of the year with a clearer sense of where attention is needed most.

Income the IRS Can't Touch

Wouldn't it be nice to have a source of nontaxable income? You may be more fortunate than you realize. Here are several types of income that the IRS does not tax.

1. **Tax-free interest.** The federal government does not tax municipal bond interest. This includes bonds issued by a state or municipality. The tax-free benefit increases the higher your income, but caution must be taken to ensure the underlying municipality is not in dire financial condition.

~ Continued on Page 6 ~

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Newsletter

Income the IRS Can't Touch (Cont'd)

2. **Health insurance premiums.** Most health insurance premiums are tax free (for now). This could change in the future, but for most people this benefit can currently be paid using pre-tax dollars.

3. **Income from Roth IRA and Roth 401(k) accounts.** While the amounts contributed into these retirement savings accounts are taxed, any earnings made on the contributions are tax free for federal income tax purposes as long as holding period and distribution rules are followed.

4. **Health savings accounts (HSA).** Contributions are deductible while earnings are tax free as long as disbursements from the account are used to pay for qualified health care expenses.

5. **Child support received.** Child support income you receive is free from federal tax.

6. **Car pool revenue.** While commuting expenses are not generally deductible, any reimbursement of your commuting expenses by fellow passengers is not reportable as income.

7. **Home sale gains.** Up to $250,000 ($500,000 for married filing jointly) of capital gains on a sale of your principal residence can be tax free.

8. **Up to 14 days of rental income.** If you rent out your home or vacation property, up to 14 days of this rental income each year can be tax free.

9. **Certain benefits from your employer.** In addition to health care premiums, there are a number of employee benefits that are not taxable. All have limits, but every tax-free dollar is money in your pocket. These include:

    - Airline miles earned on business credit card expenses
    - Certain employee-provided tuition expenses
    - Qualified adoption expense reimbursement
    - Up to $50,000 in employer-paid term life insurance
    - Flexible spending accounts for dependent care and health care expenses
    - Commuting expense benefits for parking and mass transit commuting

~ **Continued on Page 7** ~

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Income the IRS Can't Touch (Cont'd)

10. **Gifts.** If you receive a gift of any amount it is generally not taxable. Care must be taken, however, if you give gifts over the annual gift limit which is currently $19,000 per recipient from each gift-giver.

Remember, when you pay for something in pre-tax dollars, it's like giving yourself a raise. Take advantage of as many tax-free income opportunities as possible.

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.