Online Advisor – July 2023

Upcoming dates:

July 16

- National Ice Cream Day

July 23

- Parents' Day

As the temperatures reach the highs that come with summer, so too is the peak impact of inflation. As in past months, topics continue to focus on ways to fight these trends.

One of the topics covered is the ever increasing property tax burden and how to increase the odds of getting yours lowered. There is also an article discussing the impact of the increasing federal interest rate and what it means to you. Plus an interesting read for small business owners to help identify and plan for unexpected expenses.

But this month is lead off with answers to common tax questions. Included here are five of the most common including whether those free airline miles on credit cards are taxable or not.

As always, please feel free to pass this newsletter to anyone who may find it valuable and call if you have any questions or concerns.

Common Tax Questions

What everyone is wondering

During tax season, there are a number of areas that generate questions. Here are five of the most common and their answers. But like most things, there can be exceptions, so if in doubt always ask for help.

- **Are my miles earned on my credit card taxable?** Taxation of any extras you earn with a credit card – including miles, discounts, even cash back – are not taxable if you had to pay to get them. Other rewards that you receive, for example a reward for signing up for a card or for referring a new cardholder, are considered taxable income per the IRS.
- **Does my employer contribution count towards the 401(k) limit?** Your employer's matching contributions do not count toward your maximum contribution limit, which for this year is $22,500. If you're 50 or older, you can sock away an additional $7,500 (for a total of $30,000) this year.

- **What happens to loans from my retirement account if I change jobs?** When you switch jobs, you must pay back any loans borrowed from your employer-sponsored retirement account within a short amount of time. If the loan isn't paid back, the outstanding balance is considered a distribution that is subject to income taxes and an early withdrawal penalty.
- **Do I really need to report gifts given to people?** Yes, but only if you give more than $17,000 ($34,000 if married) in 2023 to any one person. It must be reported to the IRS on a gift tax return. That's because the IRS keeps track of gifts you're allowed to make over the course of your lifetime, which in 2023 is $12,920,000 ($25,840,000 if married). Only after reaching this lifetime dollar amount will you need to actually make a gift tax payment.
- **Do I have to report a loss?** You may think the IRS isn't interested in losses you incur, such as when you sell a stock at a loss or if your business loses money. The reality is that you should always report losses on your tax return because you can use them to offset income under certain conditions. In addition, most losses can be carried forward to future years to offset income.

Have your own question? Reach out. The answer could surprise you.

Pull Your Property Taxes Back Down to Earth

Higher property tax bills have accompanied the rising market values of homes over the past several years. If your property taxes have reached the stratosphere, here are some tips to knock them back down to earth.

What is happening

Property taxes typically lag the market. In bad times, the value of your home goes down, but the property tax is slow to show this reduction. In good times, property taxes go up when you buy your new home, but these higher prices quickly impact those that do not plan to move.

To make matters worse, you can only deduct up to $10,000 in taxes on your federal tax return. That figure includes all taxes - state income, property and sales taxes combined! Here are some suggestions to help reduce your property tax burden.

What you can do

Your best bet is usually to approach your local tax assessor and ask for a property revaluation. Here are some ideas to cut your property tax bill by reducing your home's appraised value.

- **Do some homework** to understand the approval process to get your property revalued. It is typically outlined on your property tax statement.
- **Understand the deadlines** and adhere to them. Most property tax authorities have strict deadlines. Miss one deadline by a day and you are out of luck.
- **Do some research** BEFORE you call your assessor. Talk to neighbors and honestly assess the amount of disrepair your property may be in versus other comparable properties in your neighborhood. Call a few real estate professionals. Tell them you would like a market review of your property. Try to choose a professional that will not overstate the value of your home hoping to get a listing, but who will show you comparable sales for your area. Then find comparable sales in your area that defend a lower valuation.
- **Look at your property classification** in the detailed description of your home. Often times errors in this code can overstate the value of your home. For example, if you live in a condo that was converted from an apartment, the property's appraised value could still be based on a non-owner occupied rental basis. Armed with this information, approach the assessor seeking first to understand the basis of the appraisal.
- **Ask for a review** of your property. Position your request for a review based on your research. Do not fall into the assessor trap of defending your review request without first having all the information on your property. Meet the assessor with a specific value in mind. Assessors are so used to irrational arguments, that a reasonable approach is often readily accepted.

While going through this process, remember to be aware of the pressure these taxing authorities are under. This understanding can help temper your position and hopefully put you in a better position to have your case heard.

Prepare Your Finances for More Interest Rate Hikes

Financial experts are bracing for more interest rate hikes by the Federal Reserve over the remainder of 2023. Any interest rate revision - either increasing or decreasing - can cause a ripple effect throughout the economy. Accordingly, the Federal Reserve's actions will probably exert at least a moderate influence over financial choices you may make at home and in your business in 2023.

Here are several ways that you could be affected by interest rates that are continuing to trend upward.

Savings and debt

As a consumer, you stand to gain from rising interest rates because you'll likely earn a better return on your deposits. Over the last ten years, placing your money in a certificate of deposit or passbook savings account has been hardly more profitable than stuffing it under a mattress. On the other hand, the cost of borrowing money will likely increase. As a result, mortgages, car loans, and credit cards will demand higher interest rates. That's not a big deal if you're already locked into low-interest fixed-rate loans. But if you have a variable rate loan or carry balances on your credit cards, you may find your monthly payments starting to increase.

Investments

On the investment front, market volatility may continue because rate increases are not completely predictable. Market sectors will likely exhibit varied responses to changes in interest rates. Those sectors that are less dependent on discretionary income may be less affected – after all, you need to buy gas, clothes, and groceries regardless of changes in interest rates.

As you adjust your financial plan, you might only need to make minor changes. Staying the course with a well-diversified retirement portfolio is still a prudent strategy. However, you may want to review your investment allocations.

Your Business

Rising interest rates can also affect your business. If your company's balance sheet has variable-rate debt, rising interest rates can affect your bottom line and possibly your plans for growth. As the cost of borrowing increases, taking out loans for new equipment or financing expansion with credit may become less desirable.

Please call if you have questions about deciding on the most beneficial response to potential future changes in interest rates.

Surprise Bills: Prepare Your Business for the Unexpected

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 sometime 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.

Budgeting Basics

During inflationary periods, it is harder to balance your income with the rising cost of housing, food, fuel, health care and insurance. One of the biggest tools to fight raising costs is creating a budget and measuring it throughout the year. Here are some suggestions to help create a budget that actually works.

- **Keep it simple.** It's not necessary to have 50 different expense categories to classify your transactions. Having a simple budget makes it more likely that you stick with it over the long term. So take a look at your bank account and identify the big things. Revenue is pretty straight forward. Expenses are more difficult, so identify the main categories and get a monthly read on them.
- **Create annually, but manage monthly.** See the full year budget as a destination, and your monthly financials as a journey to that destination. That way if you have a bump in the road, you will see other pathways to get to where you want to be at the end of the year. When you are done here, you should have a monthly budget, with full year goals.
- **Remember to budget for savings.** If everything is working well, you have enough money left over at the end of the month to build your net worth. So consider adding a percent of your income in your budget for saving and investing. This will help you build your net worth over time and help fund for emergencies.
- **Account for taxes.** Paying your tax bill may be one of your biggest expenses every year. Schedule several tax planning sessions throughout the year to figure out how much you should be saving every month to pay your federal, state and local tax bills. Then put this dollar amount in your monthly budget.

- **Remember to have fun.** Having a budget doesn't mean you can't spend money. It simply means that you're intentional about it by planning your spending before it happens and ensure it is not out of hand.

Please call if you have questions about creating a budget or want a review of your tax obligation.

Beware of These Popular Scammer Tactics

As long as the world has people with money, there will be scammers who use fraudulent tactics to try and separate you from your hard-earned cash.

Here are some of the more recently-used methods that scammers are using to try and lay claim to your money.

- **One-time passcode (OTP) scams.** Many legitimate companies use two-factor authentication as an added layer of security to access customer accounts. OTP scams are now attempting to trick you into providing the two-factor authentication code sent from a legitimate company by pretending to be a customer service representative helping you with your account.
- **Robocall scams.** If you answer the phone and hear a recorded message instead of a live person, it’s a robocall. If you’re getting a lot of robocalls trying to sell you something, odds are the calls are illegal, according to the Federal Trade Commission (FTC). Some robocalls are from legitimate companies. But if someone is already breaking the law by calling you without permission, there’s a good chance it’s a scam.
- **Remote computer access.** A new form of fraud involves you getting tricked into giving remote access of your computer to a telemarketer while you’re logged in to your bank’s website. The telemarketer detects your keystrokes to learn your username and password, then triggers your screen to go black while logging back in to your checking account.

How to protect yourself from scams

Here are some tips from the Federal Trade Commission on protecting yourself from telemarketing scams.

- **Always verify.** Confirm the identity of the person who is asking for any sort of information from you. In the case of OTP scams, you shouldn't need to share a one-time password with anyone.
- **Hang up.** Even if it’s not a scammer calling, if a company is calling you illegally, why take the chance it is a scam. When you get a robocall, don't press any numbers, it might lead to more robocalls.

- **Install a call block.** Scammers can use the internet to make calls from all over the world. They don't care if you're on the National Do Not Call Registry. That's why your best defense against unwanted calls is call blocking. Which type of call-blocking (or call-labeling) technology you use will depend on the phone. So see what services your phone carrier offers, and then look online for reviews. For mobile phones, you can also check out the reviews for different call-blocking apps in your online app store.
- **Don't trust your caller ID.** Scammers can make any name or number show up on your caller ID. So even if it looks like it's the Social Security Administration calling, it could be a scammer calling from anywhere in the world.

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