Coleman & Associates
Fully Integrated Tax, Accounting & Financial Services

July 2022

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Layering Your Bank Accounts

For years, savings and checking accounts provided very little in the way of interest income. In our current inflationary times, however, interest rates are on the rise. What is also on the rise is the comeback of traditional banking products. Here is a review of how your bank accounts traditionally work together as a team to provide you the best security and value for your money.

The checking account: 30 days of funds:

Checking accounts enable financial transactions. So store enough money here to pay immediate expenses. With checking accounts, you're allowed numerous withdrawals and unlimited deposits. The tradeoff for having an account where cash is available at a moment's notice is usually a much lower (or practically non-existent) interest rate.

Determine what your 30-day cash needs are and limit the available cash in your checking account to this amount. Also consider setting up a link to another account. Most banks allow this so you do not have overdraft fees. Consider looking for a checking account that also allows an automatic sweep function of excess funds into a higher-interest savings account.

Basic savings account: 2 to 6 months of funds:

Store your money in a secure location so you can use it to pay periodic expenses that are expected over the next 2 to 6 months. This is also where many store their emergency fund. While these accounts typically pay only a modest amount of interest, their safety and reliability make savings accounts a great choice for stashing cash you want available sometime within the next 12 months. This is also your overdraft buffer in case your checking account gets overdrawn.

Calculate your anticipated periodic expenses over the next 6 months, and limit the cash in your savings account to this amount. You don't want the balances too high, as you can typically get better interest in other bank products AND if a thief gets access to your debit card, you can limit the damage they do if this savings account is linked to your checking account.

Higher-interest bank accounts: Lots of choices:

There are several types of bank accounts for storing your money beyond what you need for short-term expenses. High-yield savings accounts, money market accounts, and certificates of deposit (CD's) all provide at least 10x the interest return compared to a regular savings account. But in return for a higher interest rate, there are rules that govern how long you need to leave your money untouched in these accounts.

Review your bank's alternatives for longer-term savings. Pay attention to interest rates and how often they adjust with the market. If CD's are your bank's strength, consider building a ladder of expiration dates to make your money more available. On high-yield accounts, the interest rate often increases with higher balances, so know what products these are. It's also a good idea to talk to your banker to review your options.

When you're trying to decide where to keep your money, there are also tax ramifications to consider. So keep this in mind as you review how your bank accounts work together as a team.

Business Mileage Deduction Increased To $0.625 Per Mile

Your business mileage tax deduction just became more valuable for the rest of 2022 after a recent announcement by the IRS.

Starting July 1st, the IRS's business mileage rate is increasing by 4 cents, to 62.5 cents per mile, while the medical and moving mileage is also increasing by 4 cents, to 22 cents per mile. The previous mileage rates still apply through June 30th. Here are some tips to make the most of your business's vehicle expense deduction.

- **Keep good records.** You won't be able to take advantage of the increased mileage rates without proper documentation. The IRS mandates that you track your vehicle expenses as they happen (this is called contemporaneous recordkeeping). You’re not allowed to wait until right before filing your tax return to compile all the necessary information needed to claim a vehicle deduction. Whether it’s a physical notebook you stick in your glove compartment or a mobile phone app, pick a method to track your mileage and actual expenses that’s most convenient for you.

- **Keep track of both mileage and actual expenses.** The IRS generally lets you use one of two different methods to track vehicle expenses – the standard mileage rate method or the actual expense method. But even if you use the standard mileage method you can still deduct other expenses like parking and toll fees. So keep good records.

Please call if you have any questions about maximizing your business’s vehicle expense deduction.

Understanding Tax Credits Versus Deductions

Tax credits are some of the most valuable tools around to help cut your tax bill. But figuring out how to use these credits on your tax return can get complicated very quickly. Here's what you need to know.

Understanding the difference

To help illustrate the difference between a credit and a deduction, here is an example of a single taxpayer making $50,000 in 2022.

- **Tax Deduction Example:** Gee I. Johe earns $50,000 and owes $5,000 in taxes. If you add a $1,000 tax deduction, he'll decrease his $50,000 income to $49,000, and owe about $4,800 in taxes.

  Result: *A $1,000 tax deduction decreases Gee's tax bill by $200, from $5,000 to $4,800.*

- **Tax Credit Example:** Now let's assume G.I. Johe has a $1,000 tax credit versus a deduction. Mr. Johe's tax bill decreases from $5,000 to $4,000, while his $50,000 income stays the same.

  Result: *A $1,000 tax credit decreases your tax bill from $5,000 to $4,000.*

In this example, your tax credit is five times as valuable as a tax deduction.

Credits are generally worth much more than deductions. However, there are qualifications required to take advantage of a credit.

To illustrate, consider the popular child tax credit as an example -

1. **Basic qualifications -** You can claim a $2,000 tax credit for each qualifying child you have on your 2022 tax return. The good news is that the IRS's definition of qualifying child is fairly broad, but there are enough nuances to the definition that it could get complicated

2. **Income qualifications -** If you make too much money, you can't claim the credit. If you're single, head of household or married filing separately, the child tax credit completely goes away if you exceed $240,000 of taxable income. If you're married filing jointly, the credit disappears above $440,000 of income.

3. **Income tax qualifications -** To claim the entire $2,000 child tax credit, you must owe at least $2,000 of income tax. For example, if you owe $3,000 in taxes and have one child that qualifies for the credit, you can claim the entire $2,000 credit. But if you only owe $1,000 in taxes, the maximum amount of the child tax credit you could claim is $1,400.

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