BENDER, CICCOTTO & CO.
Certified Public Accountants, LLP

Inside this Issue:

CLIENT UPDATE

SUMMER 2021

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Know this number!

Knowing your net worth and understanding how it changes over time is one of the most important financial concepts everyone needs to understand. This number is used by banks, mortgage companies, insurance companies and you!

A simple definition

Net worth is the result of taking all the things you own (assets) minus what you owe others (debts and liabilities).

Assets include cash, bank account balances, investments, your home, vehicles or anything else you could sell today for cash. Assets also include any businesses or business interests you own.

Liabilities are what you owe others, such as a mortgage or car loan, and any other debt, like credit card or student loan debt.

Everyone has a net worth

Yes, everyone. Even a 6-year-old with money in their piggy bank has a net worth. And if your child is saving up for a bike, they will convert one asset (cash) into another asset (their new bike)!

Calculating your net worth

- Step one. Reconcile your accounts. Try doing this every month, as these are the easiest parts of your net worth to track and calculate.
- Step two. Calculate the value of all your assets. For some of your assets, such as stocks, you can go online and find the current value of the stocks you own. For other assets, you'll have to estimate what you could sell that asset for today.
- Step three. Now gather up and calculate your liabilities. Focus on mortgages, vehicle loans and credit card debt.
- Step four. Add up all your asset values, then subtract all your debts. What you're left with is your net worth! (And yes, your number could be negative!)

Net worth power

Here's why it's beneficial to know your net worth:

- You want to apply for student loans. You'll likely need to submit an application that details all your cash and other assets when applying for student loans. If your net worth is high, you may have to foot some of the tuition bill yourself.
- You want to get insurance. Some types of insurance use your credit score as part of the calculation for determining your premium payments. Knowing if you have a high net worth may help in obtaining a lower premium amount.
- You want to diversify your investments. Certain investments are available only to individuals who have a high enough net worth.
- You want to buy a home. Banks want to see that you have plenty of cash when compared to your debts. If you have too much debt, you may need to either pay down the debt or increase your down payment.

Knowing your net worth and how to calculate it can help you achieve some of your financial goals. ♦

MEDIAN HOUSEHOLD NET WORTH BY AGE

Age of head of family	Net worth
Less than 35	$13,900
35-44	$91,300
45-54	$168,600
55-64	$212,500
65-74	$266,400
75+	$254,800

Source: Federal Reserve Bulletin, September 2020

3 IDEAS TO IMPROVE YOUR NET WORTH

1. **Save 10%** of your income
2. Participate in **retirement** accounts
3. Invest in **yourself**

IRS Update

IRS to issue refunds, recalculate taxes on unemployment benefits

The IRS will automatically refund money to people who filed their tax return reporting unemployment compensation before a new law made the first $10,200 of unemployment compensation tax free. But take care, especially if the lower income creates other tax breaks!

Emergency aid granted to students due to COVID-19 is not taxable

Emergency financial aid grants made to a student because of an event related to the COVID-19 pandemic can be excluded from the student's gross income, the IRS announced. Students should not reduce the amount of their qualified tuition and related expenses by the amount of the grant received.

No change to second quarter IRS interest rates

Interest rates for the second quarter in 2021 will remain the same compared to last quarter. These rates include: 3% for overpayments (2% for corporations); 0.5% for the portion of a corporate overpayment over $10,000; 3% for underpayments and 5% for large corporation underpayments. ♦

Tax Calendar

June 15

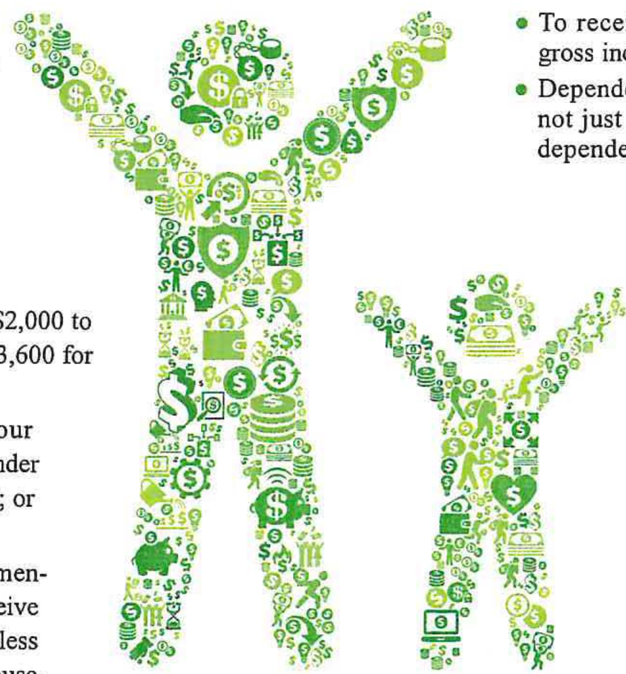
☐ Second installment of 2021 individual estimated tax is due.

September 15

☐ Third installment of 2021 individual estimated tax is due.

New tax breaks mean more money for you

The American Rescue Plan Act, which passed in March, contains several tax breaks for you and your family. Here are the major provisions of the bill that could mean more money in your pocket during the 2021 tax year.



Child tax credit (CTC)

- The CTC for 2021 increases from $2,000 to $3,000 for kids ages 6 to 17 and $3,600 for kids ages 5 and under.
- To receive the full tax credit your adjusted gross income must be under $75,000 (Single); $150,000 (Joint); or $112,500 (Head of Household).
- If your income is above the aforementioned thresholds, you can still receive $2,000 per child if your income is less than $200,000 (Single, Head of Household); or $400,000 (Joint).
- You can receive up to 50% of your 2021 child tax credit in 6 monthly payments starting July 2021.

Child and dependent care credit (DCC)

If you and your spouse work, have children in daycare, or have an adult that you care for, you may be eligible for a larger tax credit in 2021.

- You can now spend up to $8,000 in dependent care expenses for one qualifying dependent and get a 50% tax credit. This results in a maximum credit of $4,000 (up from $1,050).
- If you have more than one qualifying dependent, you can spend up to $16,000 in dependent care expenses and get a 50% credit. This results in a maximum credit of $8,000 (up from $2,100).
- To receive the full tax credit, your adjusted gross income must not exceed $125,000.
- Dependents can include people of all ages, not just kids, as long as they meet the dependent qualifications.

Earned income tax credit

- If you're a household with no kids, the maximum earned income tax credit increases from $543 to $1,502.
- More taxpayers qualify for the credit. The lower age limit for receiving the credit decreases from age 25 to age 19. The upper limit of 65 for receiving the credit is eliminated. There is no upper age limit for 2021.
- You may use either your 2019 income or your 2021 income when calculating your credit to obtain the maximum credit.

Action to take

- **You must opt out if you don't want CTC advance payments.** You will automatically receive the CTC advance payments unless you opt out. As of presstime, the IRS is still constructing a website that you'll need to use in order to opt out.
- **Consider increasing dependent care expenses.** Look ahead to the rest of 2021 and consider if you should increase your dependent care expenses to take advantage of the increase in this credit. If you increase your dependent care expenses in 2021, remember you won't be able to include the same amount of expenses when calculating your credit in 2022, as this tax credit increase is currently only for 2021.
- **Conduct a tax forecast.** With the dramatic increase in these credits, you may want to estimate next year's tax bill. It may make sense to adjust your withholdings to account for a lower tax obligation. ♦

How to roll with a continuous 12-month forecast

Tax and financial planning is a year-round proposition. In fact, you can benefit personally from a rolling 12-month forecast, much like a business does.

What is a rolling forecast?

Rolling forecasts continuously plan the future for a constant number of periods 12 months into the future. For example, on January 1, you plan what your financial picture looks like each month through January 1 of the following year. When February 1 rolls around, you then drop the beginning month and add a forecast month at the end of the 12 month period. In this case, you add February of the next year into your 12-month forecast.

The month you add at the end of the 12 months uses the finished month as a starting point. You then make adjustments to what you might think will happen one year from now. So for instance, if you know you are going to get a raise at the end of the year, your next-year February forecast would reflect this change.

How to take advantage of a rolling forecast

Tax and financial planning in rolling 12-month increments can help you cash in on money-saving opportunities within the next year. Here are several ideas to consider:

- **Plan your personal budget.** Will you need to put a new roof on your house? How about getting a new vehicle? Do you need to start saving for your kids' college education? A rolling 12-month forecast can help you plan for these future expenses throughout the year.
- **Plan your healthcare expenses.** If you have a flexible spending account (FSA) for healthcare or dependent care expenses, forecast the amount you should contribute for the calendar year. Although unused FSA amounts are normally forfeited at year-end, for 2021 your employer may permit a 12-month grace period (up from 2 1/2 months). This means that you could potentially roll over your entire unused FSA balance from 2021 to 2022. Your forecast can help you see the impact of this change.
- **Plan your contributions to a Health Savings Account (HSA).** When an HSA is paired with a high-deductible health insurance plan, you can take distributions to pay qualified health-care expenses without owing any tax on the payouts. For 2021, the contribution limit is $3,600 for an individual and $7,200 for family coverage. In this case you can forecast an increase in contributions and double check to ensure you have enough money on hand to pay future bills.
- **Plan your estimated tax payments.** This is often significant for self-employed individuals and retirees with investment earnings. The quarterly due dates for paying federal and state tax liabilities are April 15, June 15, September 15, and January 15 of the following year (or the next business day if the deadline falls on a holiday or weekend). So if your personal income is seeing a recovery from the pandemic, your rolling forecast will show this and allow you to plan for the estimated tax payments.
- **Plan your retirement contributions.** If you participate in your company's 401(k) plan, you can defer up to $19,500 to your account in 2021 ($26,000 if you're 50 or over). Contributions and earnings compound tax-deferred. As the year winds down, you might boost your deferral to save even more for retirement.

While initially setting up a rolling 12-month forecast can be a bit of a pain, once established it is pretty easy to keep it up-to-date as you are simply rolling forward last month into the future. A well-planned system can often be the first sign of future challenges or potential windfalls! ♦

> **"Tax and financial planning in rolling 12-month increments can help you cash in on money-saving opportunities..."**

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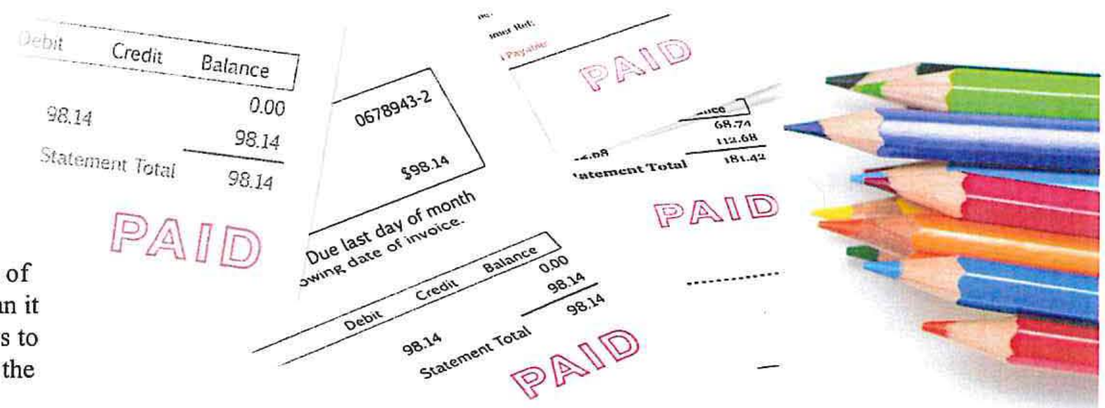
CLIENT UPDATE
PRACTICAL TAX & FINANCIAL ADVICE

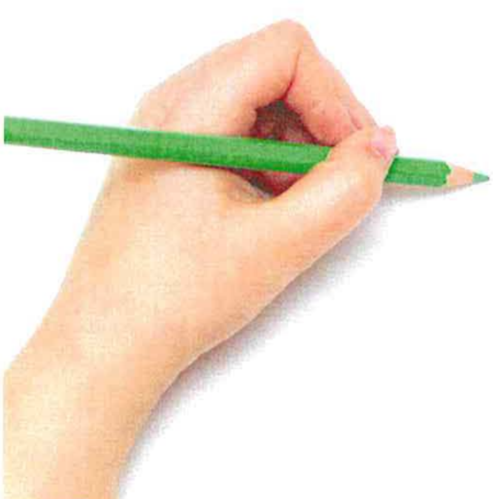
The art of bill paying



Paying bills is an inevitable part of everyday life, but that doesn't mean it has to be stressful. Here are some ways to get control of your budget and perfect the art of stress-free bill paying.

Make a budget

Knowing what you are making and what you are spending is essential to proper bill paying. First, find out how much you are making every month and then subtract the static items such as rent/mortgage, credit card payments, cell phone, and any other monthly payments. Then, budget how much you will need for other essentials (such as food and clothing). Once the essentials are accounted for, you can look at the money you have left and decide where to allocate the rest.



Find a budget tool that works

One of the best ways to get a handle on your finances is to use a budgeting tool that works for you. Your bank may have an app to track your spending, so check with them. You can then choose which tools to use to make a budget and categorize the transactions to be allocated to a certain part of the budget (such as food, car, housing, etc).

Set up autopay

Put recurring bills such as utilities, internet, and your cell phone on autopay so they will be automatically deducted from your account on their due date. If you decide to use autopay on some or all of your bills, it is still a good idea to look at the amounts being deducted every month to confirm everything is correct.

Consider your non-regular payments

Remember to account for bills that come due occasionally and plan for the cash outlay. Common examples of this are property tax payments, income taxes, and annual/semi-annual insurance payments. Plan now to have enough cash on hand for these when they come due.

Adjust due dates

Paying bills isn't as stressful when you know that you can afford to pay them, and what better time to pay bills than right after you get paid! The money will be there and you can pay those bills before that money has a chance to go anywhere else. Consider asking if you can change the due dates for some or all of your bills to correspond with when your paychecks are deposited into your bank account.

Don't forget to pay yourself!

One of the best ways to start developing a savings account is making yourself part of your budget! Take however much you think you can spare and set up an auto payment to transfer money to a separate savings account. Use this money to establish an emergency fund of approximately six to nine months of expenses. This extra cushion will come in handy if something unexpected occurs. ♦