



Online Advisor – October 2018

This month:

October 1: SIMPLE IRA plan establishment due

October 15: Extended individual and C-corp tax return filing deadline

October 31: Halloween

The leaves are starting to change colors and cool air is just around the corner. With the fourth quarter upon us, now is the time to finalize your tax plans before the busy holiday season arrives. Included here are some steps you can take to jumpstart the process for you. Also included are articles on how to create a satisfying retirement, how the IRS identifies tax fraud, and six ideas to keep your business successful. In addition, there are some practical ideas to help improve your sleep quality, and tax considerations for side income.

Please call if you would like to discuss how any of this information relates to you. If you know someone who can benefit from this newsletter, feel free to forward it to them.

TIME TO LAUNCH YOUR TAX STRATEGY

Consider conducting a final tax planning review now to see if you can still take actions to minimize your taxes this year. Here are some ideas to get you started.

- **Assess your income.** Begin by determining how your income this year will compare to last year. Then apply any tax implications this income change may cause. Be sure to account for the lower tax rates and the elimination of exemptions. Remember, if your income is rising, more of your income could be subject to a higher tax rate. Your higher income could also trigger a phase out that will prevent you from taking advantage of a deduction or tax credit formerly available to you.
- **Examine life changes.** Review any key events over the past year that may have potential tax implications. Here are some examples:
 - Purchasing or selling a new home
 - Refinancing or adding a new mortgage



- Getting married or divorced
- Incurring large medical expenses
- Changing jobs
- Having a baby
- **Identify what tax changes may impact you.** Tax changes for the current year are expected to be more impactful than we've seen in 30 years. Determine which of these changes will affect you. With these changes in mind, review your past income tax return to estimate what the impact may be on your upcoming tax bill. Please keep in mind that Congress has a habit of making last-minute changes, so you will want to plan accordingly.
- **Manage your retirement.** One of the best ways to reduce your taxable income is to use tax beneficial retirement programs. Now is a good time to review your retirement account funding. Are you taking full advantage of your employer's retirement plans? Are you saving money to invest in your future through various retirement savings options?
- **Look into credits.** There are a variety of tax credits available to most taxpayers. Spend some time reviewing the most common ones to ensure your tax plan takes advantage of them. Here are some worth reviewing:
 - Child Tax Credit
 - Earned Income Tax Credit
 - Premium Tax Credit
 - Adoption Credit
 - Elderly and Disabled Credit
 - Educational Credits (Lifetime Learning Credit and American Opportunity Tax Credit)
- **Avoid surprises.** Conducting a final tax planning review now allows you time to try to reduce your tax obligation. This is especially true if you are unsure of the specific changes made to the tax code. Remember some tax-saving ideas may require funding on your part. It is best to identify them now so you can save cash to take advantage of them prior to the end of the year.

Keys to Creating a Satisfying Retirement

You've done your retirement homework. Your assets are reviewed, you know your financial needs, and your retirement tax plan is in place. Are you ready to enjoy retirement? Probably, but not without a plan to address what happens to many after they retire - boredom. Here are some ideas.



- **Go to school.** Many colleges and communities offer classes for retired students. Pick topics of interest and take advantage of this cost-effective way to stay alert through learning. Examples could be local history classes with field trips, photography classes, writing and gardening. As an added benefit, you will meet others with your shared interest while you continue learning.
- **Pick up part-time work.** Consider picking up a few hours at a local retail establishment. The work can be rewarding and provide some additional spending money.
- **Volunteer.** Many retirees volunteer at libraries, museums and parks. Others volunteer at their local church, deliver meals and help young people with literacy. The possibilities are endless.
- **Schedule physical activity.** Staying physically active will keep your body and mind in shape. Create a weekly routine that keeps you moving. Volunteer to take the grandkids to swimming lessons while the parents are working. Bike or walk to do everyday chores.
- **Look for combinations.** With a little creativity, you can combine some of these ideas. For example, if you coached your kids in soccer, why not consider refereeing kids games? You might earn a little pay while staying connected with kids, and getting some physical activity.
- **Stay Connected.** When you retire, many of your social connections will change. This is especially true for work connections and availability of friends that are still working. Look for other ways to make new connections. Participate in community events. Reach out through volunteer efforts to meet new people.
- **Test out your dreams.** If you've always dreamed of moving to a new place in retirement, you may want to test-drive it first. A dream move may turn out to be different than you anticipated. You may miss your kids and friends. Services and connections you take for granted may become a problem. By renting a place and staying in the new location prior to committing, you will be prepared with a fallback plan if it does not work.

These are but a few ideas to help transition into a satisfying retirement. There are many resources to provide additional ideas.

FRAUD? NEGLIGENCE? KNOW THE DIFFERENCE!

Each year the IRS opens thousands of investigations looking for possible tax fraud. In 2017 alone, the Criminal Investigation (CI) arm of the IRS identified \$2.5 billion in potential tax fraud with a 91.5 percent conviction rate. While the IRS takes tax fraud seriously, they also understand that mistakes happen. Here is what you need to know.



Tax Fraud or Negligence?

Fraud. The IRS defines tax fraud as intentional wrongdoing, on the part of the taxpayer, with the specific purpose of evading a tax known to be owing. To be considered fraud, taxes must be owed and there must be deceitful intent. If convicted of tax fraud, penalties can be hundreds of thousands of dollars and may include prison time.

Negligence. On the other hand, tax negligence is an unintentional mistake. Common mistakes are wrong names or Social Security numbers, math miscalculations and errors in figuring credits or deductions. Most of these mistakes happen when individuals calculate taxes on their own. While a mistake is not usually considered fraudulent, it can create additional penalties and interest if the mistake results in more taxes owed.

Areas to be extra cautious

The majority of returns with false information will be considered a mistake, not fraud, due to a lack of nefarious intent. Even still, it's good to know when to be extra cautious to avoid unneeded scrutiny of your tax return. Here are some common areas the IRS is on the lookout for fraud:

- **Underreporting income.** Income that doesn't get reported is usually from some form of non-wage income like a side job or contractor arrangement. Make sure you have documentation of all payments received by you. Be very suspicious if you are paid in cash. All income, regardless of the source, needs to be reported.
- **Including personal expenses as business deductions.** Intentionally padding business deductions with non-deductible personal expenses can be deemed tax fraud. If you have a business, ensure that you have a separate bank account for your business transactions to avoid extra questions. For all deductions, keep your receipts in an organized fashion to prove the expense if necessary.
- **Concealing information during an audit.** Going through an audit can be an unnerving event. Don't add to the pain by intentionally hiding information from an auditor and unknowingly creating a fraudulent situation. If you are selected for an audit, the first thing to do is get help!

The tax code is complex and the IRS understands this. Missing information from taxpayers is often considered an accident unless there is reason to believe it is intentional. If you have a situation you are concerned about, don't hesitate to call.



SIX IDEAS TO HELP YOUR BUSINESS SURVIVE AND THRIVE

If you are like millions of taxpayers trying to make a living running a small business, you know it is tough out there. Here are six ideas to help your business survive and thrive.

1. **Understand your cash flow.** One of the biggest causes of business failure is lack of positive cash flow. At the end of the day, you need enough cash to pay your vendors and your employees. If you run a seasonal business you understand this challenge. The high season sales harvest needs to be ample enough to support you during the slow non-seasonal periods.

***Recommendation:** Create a 12-month rolling forecast of revenue and expenses to help understand your cash needs each month.*

2. **Know your pressure points.** When looking at your business, there are a few categories that drive your business success. Do you know the top four drivers of your financial success or failure? By focusing on the key financial drivers of your business, success will be easier to accomplish.

***Recommendation:** Look at last year's tax return and identify the key financial drivers of your business. Do the same thing with your day-to-day operations and staffing.*

3. **Prioritize your inventory.** If your business sells physical product, you need a good inventory management system. This system does not have to be complex, it just needs to help you keep control of your inventory. Cash turned into inventory that becomes stuck as inventory can create a cash flow problem.

***Recommendation:** Develop an inventory system with periodic counts (cycle counting) to help identify when you need to take action to liquidate old inventory or research any discrepancies.*

4. **Know your customers.** Who are your current customers? Are there enough of them? Where can you get more of them? How loyal are they? Are they happy? A few large customers can drive a business or create tremendous risk should they go to a competitor.

***Recommendation:** Know who your target audience is and then cater your business toward them and what they are looking for in your offerings.*

5. **Learn your point of difference.** Once you know who your customer is (your target audience), understand why they buy your product or service. What makes you different from others selling a similar item?



Recommendation: *If you don't know what makes your business better than others, ask your key customers. They will tell you. Then take advantage of this information to generate new customers.*

6. **Create a great support team.** Successful small business owners know they cannot do it all themselves. Do you have a good group of support professionals helping you? You will need accounting, tax, legal, insurance, and employment help along with your traditional suppliers.

Recommendation: *Conduct an annual review of your resources, be prepared to review your suppliers and make improvements where necessary.*

While libraries are filled with small business advisory books, sometimes focusing on a few basic ideas can help improve your business' outlook. Please call if you wish to discuss your situation.

FIND YOUR SLEEP SWEET SPOT

We've all heard it before - sleep is important, and you probably aren't getting enough of it. But did you know that too much sleep can be just as harmful? The Mayo Clinic recommends the ideal sleep range at 7-9 hours per night for adults. According to the National Sleep Foundation, here are some tips to create your ideal night's sleep.

Tips to Find Your Ideal Night's Sleep

- **Perform a sleep test.** Start in the middle of the range with eight hours and count backwards from when you want to wake up in the morning. For example, if you want to wake at 7 a.m., go to bed at 11 p.m.. If your alarm wakes you up, go to bed 15 minutes earlier the next night. Take 7-10 days to tinker with the timing until you start to wake up shortly before your alarm. After a while you might be able to ditch the alarm.
- **Use a sleep tracker.** Most smart watches have a sleep tracking function. It might be hard to get used to sleeping while wearing a watch, but it can provide information for how long it takes for you to fall asleep, track your sleep cycles, and report how often you wake up during the night. Knowing these facts can help you refine your sleep plan.
- **Avoid screens before bed.** Your brain is trained to equate light with being awake. In the hour or so before you want to be asleep, try to avoid bright lighting and electronic screens. Scrolling through your smartphone or tablet can increase the time it takes you to fall asleep.

- **Create your ideal sleep environment.** There are many aspects to your sleep environment you can adjust to increase your quality of sleep including lighting, temperature, white noise and bedding. Experiment with different options to see if they improve your sleep quality.
- **Know when to get help.** While these ideas may help you optimize your sleep, you should seek professional help if your sleep cycle is creating problems. According to the Cleveland Clinic, you should seek medical attention if you are experiencing severe daytime fatigue, you have high blood pressure, you are waking up several times per night or you are dependent on medication to help you sleep.

Even if you come up with the perfect plan, life happens and there will be times when you get less sleep. Just ask a friend with a new baby or when you are sick with a cold! But it's still good to have a plan for when life goes back to normal. Understanding your body's sleep requirements and making a few adjustments will help you develop a plan and maintain a healthy balance.

Hustling for Extra Income

Don't Forget the Taxman!

Conduct an online search of the phrase "side hustle" and you will find websites with countless ideas on how you can make some money on the side. The ideas range from carpet cleaning to podcasting. What a lot of these sites fail to inform you, is the tax implications that come from the additional income. Here are five tips to help you stay on top of your side hustle taxes:

1. **Business or hobby?** When reviewing your activity, the first determination made by the IRS is whether the arrangement is a business or a hobby. There are several factors the IRS uses, but the big one is: does the activity make a profit or intend to make a profit? The IRS will presume the activity is a business if a profit is made during at least three of the last five years. Once business versus hobby is determined, differing tax rules will apply. In short, expenses paid for operating a business are tax deductible. Hobby expenses are not.
2. **All income must be reported.** Income from side hustles can come from a variety of sources. Regardless of where the money comes from or how much it is, it needs to be reported on your taxes. If you are working for a company, you will get a 1099 (if you are paid more than \$600) or a W-2.
3. **Keep good records and save receipts.** Being organized and having good records will do two things: ensure accurate tax reporting and provide backup in the event of an audit. Log each receipt of income and each expense. Save copies of receipts in an organized fashion for easy access. There are multiple programs and apps to help with this, but a simple spreadsheet may be all that you need.
4. **Make estimated payments.** If you are running a profitable side business you will owe additional taxes. In addition to income tax, you might owe self-employment tax as well. Federal quarterly estimated tax payments are required if you will owe more than \$1,000 in taxes for the year. Even if you think you will



owe less than that, it's a good idea to set a percentage of your income aside to avoid a surprise when you file.

5. **Get professional tax help.** There are many other tax factors that can arise from side income such as business entity selection, sales tax, state taxes and more. Call to set up a time to work through your situation and determine the best course of action moving forward. Knowing you have someone to help with your tax obligations will free you to focus on your extra income generating activity.

Creating a "side hustle" can be fun, rewarding and bring in additional income to help with expenses or add funds for other activities. Just make sure you understand how the income will be taxed to avoid an unwanted surprise.

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

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