Online Advisor – January 2019

This month:

January 1: New Year's Day

January 15: 4th Quarter Estimated Payments Due

January 21: Martin Luther King Jr. Day

Start tax planning for the new year:

- Adjust withholdings

- Organize filing records

- Schedule tax consultation

- Rebalance investment portfolio

The New Year is upon us! As you finish cleaning up the champagne glasses and confetti, now is the time to start thinking about your tax preparation plan. This issue is packed with useful information including tips to receive a faster refund. In addition, there are ideas to manage cash flow for your business, things to consider when living with a smart speaker, and age-appropriate suggestions for teaching your children how to handle financial matters.

Call if you would like to discuss how any of this information relates to you. If you know someone that can benefit from this newsletter, feel free to send it to them.

Tips for a Faster Refund

As the tax filing season approaches, there are steps you can take now to speed up the filing process. The faster your return is filed, the faster you get your refund. Even if you end up owing money to the IRS, knowing the amount due sooner gives you more time to come up with the funds needed to pay your tax bill. Here are things you can do now to get organized:

1. **Look for your tax forms.** Forms W-2, 1099, and 1098 will start hitting your mailbox. Look for them and get them organized. Create a checklist of the forms to make sure you aren't missing any.
2. **Don't wait for Form 1095s.** Once again, proof of health insurance coverage forms are delayed. The deadline for companies to distribute most Form 1095s to employees is pushed back to March 4. The IRS is OK with filing your return prior to receiving the proof of insurance form as long as you can provide other forms of proof. Remember, 2018 is the last year of penalties if you do not have adequate insurance coverage.
3. **Finalize name changes.** If you were recently married or had a name change, file your taxes using the correct name. File your name change with the Social Security Administration as soon as possible, but be aware of the timing with a potential name conflict with the IRS.
4. **Collect your statements and sort them.** Using last year's tax return, gather and sort your necessary tax records. Sort your tax records to match the items on your tax return. Here is a list of the more common tax records:
    - Informational tax forms (W-2, 1099, 1098, 1095-A, plus others) that disclose wages, interest income, dividends and capital gain/loss activity
    - Other forms that disclose possible income (jury duty, unemployment, IRA distributions and similar items)
    - Business K-1 forms
    - Social Security statements
    - Mortgage interest statements
    - Tuition paid statements
    - Property tax statements
    - Mileage log(s) for business, moving, medical and charitable driving
    - Medical, dental and vision expenses
    - Business expenses
    - Records of any asset purchases and sales
    - Health insurance records (including Medicare and Medicaid)
    - Charitable receipts and documentation
    - Bank and investment statements
    - Credit card statements

- Records of any out of state purchases that may require use tax
- Records of any estimated tax payments
- Home sales (or refinance) records
- Educational expenses (including student loan interest expense)
- Casualty and theft loss documentation (federally declared disasters only)
- Moving expenses (military only)

If you are not sure whether something is important for tax purposes, retain the documentation. It is better to save unnecessary documentation than to later wish you had the document to support your deduction.

5. **Clean up your auto log.** You should have the necessary logs to support your qualified business miles, moving miles, medical miles and charitable miles driven by you. Gather the logs and make a quick review to ensure they are up to date and totaled.
6. **Coordinate your deductions.** If you and someone else may share a dependent, confirm you are both on the same page as to who will claim the dependent. This is true for single taxpayers, divorced taxpayers, taxpayers with elderly parents/grandparents, and parents with older children.

While you are organizing your records, ride the momentum to start your filing system for the new year. Doing so will make this process a breeze this time next year!

Every Business Needs Cash!

5 keys to better cash management

Focusing solely on sales and profits can create a surprise for any business when there is not enough cash to pay the bills. Here are five key principals to improve your cash management.

1. **Create a cash flow statement and analyze it monthly.** The primary objective of a cash flow statement is to help you budget for future periods and identify potential financial problems before they get out of hand. This doesn't have to be a complicated procedure. Simply prepare a schedule that shows the cash balance at the beginning of the month and add cash you receive (from things like cash sales, collections on receivables, and asset dispositions). Then subtract cash you spend to calculate the ending cash balance. If your cash balance is decreasing month to month, you have negative cash flow and you may need to make adjustments to your operations. If it's climbing, your cash flow is positive.

   Bonus tip: *Once you have a cash flow statement that works for you, try to automate the report in your accounting system. Or even better, create a more traditional cash flow statement that* *begins with your net income, then make adjustments for non-cash items and changes in your balance sheet accounts.*

2. **Create a history of your cash flow.** Build a cash flow history by using historical financial records over the course of the past couple of years. This will help you understand which months need more attention.
3. **Forecast your cash flow needs.** Use your historic cash flow and project the next 12 to 24 months. This process will help identify how much excess cash is required in the good months to cover payroll costs and other expenses during the low-cash months. To smooth out cash flow, you might consider establishing a line of credit that can be paid back as cash becomes available.
4. **Implement ideas to improve cash flow.** Now that you know your cash needs, consider ideas to help improve your cash position. Some ideas include:
    - Reduce the lag time between shipping and invoicing.
    - Re-examine credit and collection policies.
    - Consider offering discounts for early payment.
    - Charge interest on delinquent balances.
    - Convert excess and unsold inventory back into cash.
5. **Manage your growth.** Take care when expanding into new markets, developing new product lines, hiring employees, or ramping up your marketing budget. All require cash. Don't travel too far down that road before generating accurate cash forecasts. And always ask for help when needed.

Understanding your cash flow needs is one of the key success factors in all businesses. If your business is in need of tighter cash management practices, now is the perfect time to get your cash flow plan in order.

Hey Alexa. Are you Making Me Dumb?

3 concerns to consider while living with a smart speaker

Smart speakers like the Amazon Echo and Google Home are popping up everywhere. According to a Nielsen study from last September, nearly one of every four U.S. households has a smart speaker - 40 percent of those homes have more than one. For some, the speaker is an easy way to play music, for others it's a unique way to easily access the Internet for information and control other Wi-Fi enabled products. However, there are some questions regarding whether or not it's a good idea to own one. Here are three concerns to consider if you own or are thinking of purchasing a smart speaker:

- **Is it spying on me?** Privacy is a major concern regarding smart speakers. Once powered up and connected to your Wi-Fi, it is listening in your home 100 percent of the time. Listening is its core function - it needs to hear you say the "wake" word to then process your question or command. Amazon claims that it only starts recording once it wakes up, but there is no way to know for sure. Ultimately you need to decide if the benefits of owning a smart speaker outweigh the risk of potentially giving up some privacy.

- **Will it make me unintelligent?** Ever since the internet became available on handheld devices, the need to think through problems has decreased. It is often debated that having the answers to almost everything at our fingertips can suppress cognitive development. According to the National Center for Biotechnology Information (NCBI) that line of thinking might not be correct. The study of the relationship between brain development and technology is still in its infancy and test results are often counter-intuitive. The conclusion? No one knows! Given this, as a buyer you should be aware of the possibility of dynamic changes in the way we think, especially children. One idea is to limit the time the device is on, just like monitoring use of cell phones, computers and tablets.
- **Will I lose my manners?** A smart speaker doesn't require you to say "please" and "thank you" to get what you want. A simple command is all that is required. The Atlantic published an article pondering how giving verbal commands to a smart speaker with the "casual rudeness" that is required could possibly change the way you talk to people over time. A good defense against losing your politeness is to be self-aware of your speech to others. According to a study by the European Journal of Social Psychology, it takes 66 days to create a habit. Set a reminder on your smart speaker (wink) for two months from now to politely remind yourself to pay attention to your vocabulary.

While there is no shortage of opinions regarding the use of smart speakers in the home, it's up to you to decide if it fits with your lifestyle. If you are torn, Amazon and Google have smaller versions (Echo Dot and Google Home Mini) that are relatively inexpensive. You can try it out for a while and see how you like it. If it goes well, you can spring for the larger model and move the smaller version to another room in the house. If it goes poorly, you can sell it or give it to someone else.

How to Raise a Financially Savvy Child

If you have children (or grandchildren) you have an opportunity to give them a jump-start on their journey to becoming financially responsible adults. While teaching your child about money and finances is easier when you start early, it's never too late to impart your wisdom. Here are some age-relevant suggestions to help develop a financially savvy young adult:

- **Preschool –** Start by using bills and coins to teach them what the value of each is worth. Even if you don't get into the exact values, explain that a quarter is worth more than a dime and a dollar is worth more than a quarter. From there, explain that buying things at the store comes down to a choice based on how much money you have (you can't buy every toy you see!). Also, get them a piggy bank to start saving coins and small bills.
- **Grade school –** Consider starting an allowance and developing a simple spending plan. Teach them how to read price tags and do comparison-shopping. Open a savings account to replace the piggy bank and

teach them about interest and the importance of regular saving. Have them participate in family financial discussions about major purchases, vacations and other simple money decisions.

- **Middle school –** Start connecting work with earning money. Start simple with babysitting, mowing lawns or walking dogs. Open a checking account and transition the simple spending plan into a budget to save funds to make larger purchases. If you have not already done so, it is a good time to introduce the importance of donating money to church or charity.
- **High school –** Explain the job application and interview process. Work with them to get a part-time job to start building work experience. Add additional expense responsibility by transferring direct responsibility for things like gas, lunches and expenses for going out with friends. Introduce investing by explaining stocks, mutual funds, CDs and IRAs. Talk about financial mistakes and how to deal with them when they happen - try to use some of your real-life examples. If college is the goal after high school, include them in the financial planning decisions.
- **College –** Teach them about borrowing money and all its future implications. Explain how credit cards can be a good companion to a budget, but warn of the dangers of mismanagement or not paying the bill in full each month. Discuss the importance of their credit score and how it affects future plans like buying a house. Talk about retirement savings and the importance of building their retirement account.

Knowing about money - how to earn it, use it, invest it and share it - is a valuable life skill. Simply talking with your children about its importance is often not enough. Find simple, age specific ways to build their financial IQ. A financially savvy child will hopefully lead to a financially wise adult.

TAKING A HOME OFFICE DEDUCTION

A great tax reduction idea, if done right!

Cloud-based applications, extensive communication channels, and other new technologies make it easier to run your business out of your home. If you qualify, many home business expenses are deductible. Think you might qualify? You must first pass these tests.

1. **Trade or business use test.** To qualify for business use of your home you must use part of your home for a qualified trade or business. This profit seeking activity must not be a hobby in the eyes of the IRS.
2. **Exclusive use test.** You must use part of your home exclusively for your business activity. Blending personal use within the same space as your business activity can disallow the business use of home deductions, however, there does not need to be a permanent barrier between this space and the rest of the house.
3. **Regular use test.** In addition to having a qualified business activity in an exclusive area of your home, you must also use it "regularly" for your business activity. The IRS applies judgment in this area to determine the facts and circumstances around what it deems to be regular use.

4. **Principal place of business test.** To deduct your home office expenses, the home location must also be your principal place of business. That does not mean there cannot be other business locations, just that your home office must be your primary location. You might also have multiple business activities. In this case, you could meet the test for one of your businesses to qualify to take the deductions. With multiple locations, the considering factors are:
   - The relative importance of the activities performed at each location
   - The amount of time spent at each location
   - The primary place used exclusively and regularly for administrative or management activities
   - Whether there are other fixed locations for business use

Types of deductible expenses

This chart from the IRS gives some direction on the types of expenses that are deductible. As always, proper substantiation is required to take the deduction, so keep all receipts and statements in an organized fashion.

Expense	**Description**	**Deductibility**
Direct	Expenses only for the business part of your home. *Examples:* *Painting or repairs only in the area used for business.*	Deductible in full. * *Exception:* *May be only partially deductible in a daycare facility.*
Indirect	Expenses for keeping up and running your entire home. *Examples:* *Insurance, utilities, and general repairs.*	Deductible based on the percentage of your home used for business. *
Unrelated	Expenses only for the parts of your home not used for business. *Examples:* *Lawn care or painting a room not used for business.*	Not deductible.

Source: IRS Publication 587 — ** Subject to the deduction limit*

Sound confusing? Perhaps. If the additional work of tracking specific expenses is too much to handle, a simplified home office deduction calculation is also available to small businesses to lower their tax bill. Please call should you need help in navigating this part of the tax code.

IRS Announces 2019 Mileage Rates

Mileage rates for travel are now set for 2019. The standard business mileage rate increases by 3.5 cents to 58 cents per mile. The medical and moving mileage rates also increase by 2 cents to 20 cents per mile. Charitable mileage rates remain unchanged at 14 cents per mile.

2019 Standard Mileage Rates

Standard Mileage Rates	
Mileage	Rate/Mile
Business Travel	58 cents
Medical/Moving	20 cents
Charitable Work	14 cents

Here are 2018 rates for your reference, as well.

2018 Standard Mileage Rates

Standard Mileage Rates	
Mileage	Rate/Mile
Business Travel	54.5 cents
Medical/Moving	18 cents
Charitable Work	14 cents

Remember to properly document your mileage to receive full credit for your miles driven. As always, should you have any questions or concerns regarding your tax situation please feel free to call.