



Online Advisor – May 2019

This month:

May 12: Mother's Day

May 15: Exempt organization tax returns due

May 27: Memorial Day

With tax season in the rear view mirror, it's full speed ahead into tax planning season. While it's important for everyone to have a tax roadmap, there are key situations that require extra attention so you can avoid a major tax pothole. This issue includes lessons to learn from some high-profile tax scandals, sneaky vacation costs that can ruin your vacation, and an inside look at some key characteristics of a great bookkeeping system.

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.

You Know You Need Tax Planning If...

Effective tax planning helps you make smart decisions now to get the future outcome you desire - but you need to make sure you don't miss anything. Forget to account for one of these situations and your tax plans will go off the rails in a hurry:

1. **Getting married or divorced.** One plus one does not always equal two in the tax world. Marriage means a new tax status, new deduction amounts and income limits, and a potential marriage penalty. The same is true for divorce, but with added complexity. Untangling assets, alimony, child support and dependents are all considerations worthy of discussion.
2. **Growing your family.** While bringing home a new child adds expenses to your budget, it also comes with some tax breaks. With a properly executed plan, you can take home the savings now to help offset some



of those new costs. If you are adopting, you get an additional tax credit to help with the adoption expenses.

3. **Changing jobs or getting a raise.** Earning more money is great, but if you're not careful, you might be surprised by the tax hit. Each additional dollar you earn gets taxed at your highest tax rate, and might even bump you to the next tax bracket. If you are switching jobs, the change also includes things like new benefit packages to consider.
4. **Buying or selling a house.** Whether you're a first-time homebuyer, you're moving to your next house, or you're selling a house, there will be tax implications resulting from the move. Knowing how your taxes will be affected ahead of time will help you make solid financial decisions and avoid surprises. If you're looking to buy or sell investment property, even more tax issues come into play.
5. **Saving or paying for college.** There are so many different college tax breaks, it can be tricky to determine which ones might make the most sense for your situation. These include the American Opportunity Tax Credit, the Lifetime Learning Credit, the Coverdell Education Savings Account, 529 plans and student loan interest deductibility.
6. **Planning for retirement.** Everyone needs to plan for retirement, but each situation is different. Some of the factors to keep in mind include employment status, current income, available cash, future earnings and tax rates, retirement age and Social Security. Putting all of these variables into one analysis will paint a clearer picture of your retirement strategy and provide a way forward.

Don't make the mistake of omitting key details from your tax plan. Call now to schedule a tax-planning meeting.

Al Capone, Aunt Becky, Tax Fraud and You!

How you can learn from high-profile tax scandals

The recent college admission scandal involving Lori Loughlin (who played Aunt Becky in the *Full House* TV series) and others is shedding light on just one way people allegedly cheat on their taxes. Here are examples of some famous people in tax trouble with the IRS and helpful hints to make sure it doesn't happen to you:



1. **Lori Loughlin and questionable charitable donations.** In this case, the IRS would investigate whether payments deducted as charitable contributions on her tax return were really charitable contributions. Regardless of how the legal charges shake out, Loughlin is looking at a large tax bill if the charity she contributed to is stripped of their non-profit status.

***Helpful hint:** Charitable giving must be to legitimate charitable organizations, for legitimate purposes, and must be reduced by any value received in return.*

2. **Al Capone and his illegal earnings.** After years of bribing and wriggling his way out of violent crime charges, Capone was charged with 22 counts of tax evasion for not reporting income on illegal activities. He was sentenced to 11 years in prison - some of which were served at Alcatraz Federal Penitentiary in San Francisco.

***Helpful hint:** ALL income - even if obtained illegally - is taxable.*

3. **Wesley Snipes decided not to file his taxes.** In 2008, actor Snipes was convicted for not filing tax returns from 1999 to 2001. Among his many arguments, Snipes used the tax protester theory claiming domestic income is not taxable. After jail time, Snipes' offer in compromise to lower his \$23 million tax bill request was shot down by the IRS.

***Helpful hint:** Exotic tax schemes are actively monitored by the IRS. If it seems too good to be true, it probably is too good to be true and requires a second opinion.*

4. **Leona Helmsley faked her business expenses.** Helmsley, A famous real estate mogul in the 1980s, had more than \$8 million of renovations to her private home billed to one of her hotels so she could deduct the expense on her taxes. After being convicted, Helmsley had to pay back the \$8 million and served 18 months in prison.

***Helpful hint:** Separate business expenses from personal expenses. Open separate bank accounts and never intermingle expenses. The IRS is quick to disallow deductions when personal expenses and business expenses are mixed together.*



5. **Pete Rose hid his "likeness" income.** Many famous athletes go on to sell autographs, memorabilia and get paid for appearances after they retire from their sport. Rose was no different, but he opted not to report the \$354,968 he earned over a four-year period. The result was five months in prison and a \$50,000 fine in addition to having to pay back the taxes he tried to avoid.

***Helpful hint:** Don't attempt to hide income. With fewer businesses using cash payments, the IRS now can use matching programs to quickly find underreporting problems.*

While seeing well-known celebrities in the press for tax trouble makes for interesting reading, there are useful tax lessons for all of us. It provides an opportunity to see how IRS employees think and what they are reviewing.

Watch Out! 7 Vacation Costs That Sneak Up on You

Going on vacation is a time to get away, relax and enjoy new experiences. But if you don't pay close attention, extra costs can sneak up on you like tiny money-stealing ninjas. Here are seven sneaky vacation costs to watch out for:

1. **Covert airfare increases.** Airline pricing algorithms are programmed to store your browsing history to see if you've been looking at flights. If you have, they will bump up the price. Before searching, clear your internet history and switch to private (or incognito) mode on your web browser. When you are finally ready to book the flight, do so using a different computer from a new location to be sure that you're avoiding this artificial price increase.
2. **Stealthy resort fees.** The nightly base rate for a fancy resort will often compare favorably to a standard hotel in the same location. This is an intentional pricing tactic used by resorts to get their rooms on the initial search results page. Don't be fooled! These same resorts will add a daily resort fee on the back end of your bill to cover the extra amenities they offer. The extra fee might be worth it to you, but it's better to understand the full cost of the stay before making your reservation.

3. **Useless rental car insurance.** Rental car companies will try to sell you insurance to cover damages you may cause during the rental period. Often, the auto insurance you already have will extend to the rental car. In these cases, the extra insurance isn't necessary. Before renting a car, check with your insurance company to see if a rental will be covered.
4. **Bloated baggage fees.** You probably already know that airlines may charge for checking a bag, but do you know they will charge extra if a bag is too heavy? Exact weight can vary by airline or location, so check the weight limits before you go and weigh any heavy bags using a bathroom scale.
5. **Crafty parking costs.** Downtown hotels in big cities charge as high as \$75 per night for parking! Research alternative parking options near your hotel or compare the cost of using rideshare options before committing to the hotel rate.
6. **Sly extra driver charges.** Rental car companies will charge an extra daily fee to have a second driver listed on the rental. If possible, commit to one person to handle all the driving on your vacation.
7. **Tricky foreign transaction fees.** Traveling abroad and paying an extra fee for every purchase will add up in a hurry. Before you go, check your credit cards and bank accounts to see if they charge foreign transaction fees. If they do, shopping for another card or account that doesn't charge fees might make sense.

Some vacation fees can't be avoided, but many of them can if you know where to look. Implement a plan to navigate the fees in the planning stages of your trip to avoid dealing with them during your vacation.

4 Key Elements of Great Business Books

Your bookkeeping system is the financial heart and lifeblood of your business. When set up and operating properly, your books help you make smart decisions and seamlessly turn your financial data into useful information. Here are four key characteristics to build and maintain a healthy bookkeeping system:

1. **Select the proper accounting method**

There are two different methods for recording transactions: cash-basis and accrual-basis. In general,



cash-basis records a transaction when payment is made where accrual-basis books the transaction upon delivery of the good or service. Cash-basis is easier to track and a useful option for smaller businesses and sole-proprietors. Where as larger businesses who buy from vendors on account (accounts payable) generally use accrual-basis accounting.

Selecting the proper method affects any related financial transactions and how your financial statements are displayed. A correct approach will also include consideration of outside factors, including: IRS rules (businesses with more than \$25 million in gross receipts must use accrual-basis), bank covenants, and industry standards. Once a choice is made, it can be changed but it must be properly reported to the IRS.

2. Create an account structure that fits the company

Every business has a chart of accounts included in their bookkeeping system. These accounts sort the business's transaction data into six meaningful groups. They are assets, liabilities, equity, income, cost of goods sold and other expenses. Each group will often have numerous accounts and sub-accounts associated with them.

Having the right mix of accounts created and grouped in an organized fashion will help you properly classify transactions and prepare usable financial statements. The proper account structure for your company will mesh with your specific information needs.

3. Enter accurate and timely transactions

The value your data provides is dependent on each transaction being recorded correctly and on time. Entering transactions in the wrong account can cause major issues down the road. Financial reporting that is delayed can hide problems that need immediate attention. Some transactions are relatively straightforward, and some are more complex (like payroll, accruals and deferrals).

It's important to have someone who understands both your business and the accounting rules enter



your transactions in a timely fashion. In addition, a good month-end close process that involves reviewing each account, will find mistakes from the initial entries.

4. **Establish financial statements for decision-making**

The main financial statements are the income statement (income - expenses = gross profit), the balance sheet (assets = liabilities + equity) and statement of cash flow. Each statement has a specific purpose:

- a. **Income statement.** The income statement shows company performance for a select period of time; typically monthly with a full year summary. At the end of each year the income statement restarts.
- b. **Balance sheet.** The balance sheet displays a company's overall health as of a certain date. It is perpetual. This means it doesn't end until the business is closed or sold. It includes one line that summarizes the current year and prior year results from the income statement.
- c. **Statement of cash flow.** This statement summarizes the inflow and outflow of cash. It ensures you know whether you have enough cash and the pattern of your cash position over time.

If properly executed, your bookkeeping system will turn out accurate financial statements that can be used for several tasks - financial reporting, budgeting, forecasting, raising capital, applying for a loan, tax reporting and decision making. Feel free to call with any questions or to discuss bookkeeping solutions for your business.

The Casualty Loss Problem

What you can do to help

Tax laws severely limit who can deduct losses on their tax return caused by a catastrophic event. Now unless a loss is in a presidentially declared disaster area, victims are on their own to pick up the pieces. This is creating



problems for those on the fringe of a major disaster and those who have a local casualty loss like a local flood or fire.

Possible Solutions

With tax savings no longer available to help cover some of the damages, victims need to find relief in other areas. Here are some ways that you can help fill this void:

1. **Send a gift.** While direct gifts are not tax-deductible, the IRS allows gifts of cash or property to any one person valued up to \$15,000 each year without having to report it on a gift tax return. Check with the victim to see if they have any specific needs. Maybe you have an extra car or some furniture that you can spare.
2. **Start a crowdfunding campaign.** Organizing a fundraiser on websites like GoFundMe or Fundly is a great way to raise money for someone suffering a disaster. Once created, you can share on social media to raise awareness and ask others to join you in support. This approach can take the form of many small donations adding up to a large gift for the victim. Be aware that donations to individuals, even through crowdfunding, are also considered gifts.
3. **Offer your time.** Volunteering your time is often more valuable than a financial gift. After experiencing a loss, victims will feel pulled in multiple directions. Helping with cleanup or repairs, organizing meals, watching children, or offering your expertise are some examples of how you can reduce their burden. Try to coordinate your efforts with local charities as they will be better able to use your talents where they are needed.
4. **Donate to charity.** There are many reputable charities and local churches that are ready to help when disaster strikes. These organizations rely on donations to continue to provide for people in need. Just make sure the charity is legitimate before you give them your money. Websites like CharityWatch and Charity Navigator are good resources for identifying trustworthy charities. Remember, charitable donations to qualified charities are tax-deductible as an itemized deduction, so keep good records and save receipts.



Be a watchdog for scams

Opportunists and scammers come from every direction when losses occur. Their goal is to exploit the victim's suffering and inexperience with the situation to benefit themselves. Fraudsters may set up fake charity funds or pose as inspectors, building contractors or even government agents. With so many things to handle and emotions to process, the victim may be too overwhelmed to see through a scam. Here is where you can help. Take a skeptical approach to anyone soliciting business from the disaster and don't trust anyone who asks for money.

Thankfully, victims living in presidentially declared disaster areas can still deduct casualty losses on their taxes, but people suffering localized losses cannot. Any assistance you can provide will help ease their suffering during a difficult time.

Digital Marketing Mistakes to Avoid

The keys to successful digital marketing practices are often learned through failure. But this doesn't have to be you! The wise business owner learns from the travails experienced by others. Here are some digital marketing mistakes to know so you can keep them from unraveling your strategy:

1. **Overlooking directory listings.** Now more than ever, people turn to the internet for answers to their questions - what restaurant serves the best seafood? Which bands are in town tonight? Where can I get my taxes prepared? Directory listings such as Google My Business, Facebook and Yelp group local businesses by niche and list them as the top options to answer these questions. Not having your business prominently displayed in these results drops your listing below your competitor's and puts you at a clear disadvantage when looking to add new customers.
2. **Ignoring negative customer reviews.** A non-response to a disgruntled customer in a public space gives the false impression that you don't care about customer satisfaction. Don't let the impression sink in - use it as an opportunity to turn a potentially damaging review into a positive example of your relentless customer service. A sincere response that provides a reasonable solution will show potential customers that you can be trusted to fully take care of their needs.
3. **Posting pointless content on social media.** Too often, businesses lack a social media marketing strategy and post things just to have a presence. Over-posting or posting irrelevant information can diminish



your brand and make you look out of touch. Whether it's a newsworthy item to prompt customer questions or it's designed to drive traffic to your website, every post should stimulate action or positive feelings from the reader.

4. **Neglecting your website.** Your website is often the first, and maybe last, impression a potential customer has of your business. Don't blow it with a stale presentation and outdated information. Old news stories and content will give the appearance that your business is not up to speed on the most recent developments in your industry. Keeping your website looking fresh and stocked with current topics will show your customers you are engaged and ready to give them the best service possible.
5. **Deploying an inconsistent approach.** Marketing doesn't have a season - it needs to have a consistent presence year-round. Inconsistent marketing fails to communicate the benefits your products and services provide. Every customer touchpoint should be part of a greater strategy that seeks to build confidence in your brand. Scattered pieces of content may provide value here and there, but the power of consistency directly connects your marketing content to the value of your business.

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

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