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SUMMER TAX PLANNING FOR SMALL BUSINESSES

Tax planning isn't limited to year-end and your review at the start of a new year. Being proactive and reviewing your tax strategy mid-year can give you a competitive edge and set you up for success come the 2024 tax season.

WHAT TO LOOK AT

During the summer months, review your deductible business expense records. Every expense you document—travel, meals, entertainment, office supplies, equipment, etc.—can reduce your taxable income. Check out your contributions to tax-advantaged retirement accounts. Can you increase them? By doing so, you can benefit from potential tax deductions and credits.

Make sure you get your business's quarterly tax reports filed and paid to the IRS. Assess your business's financial situation and estimate income for the rest of 2024. Estimating your tax liability and making timely payments helps you avoid any tax surprises.

MAXIMIZE DEDUCTIONS AND CREDITS

Consider organizing a summer team-building event or a client appreciation outing. The costs associated with these activities may be deductible. Keep detailed records and receipts to substantiate these expenses.

If you have a legitimate business reason to travel somewhere that might mix well with a family vacation, you may be able to deduct your individual business-related expenses, but not the family's.

Business renovations and improvements are often best done during the summer months. Consider whether this summer is the time to tackle those projects. Before starting, make sure you understand which expenses—energy efficient improvements, for example—qualify for tax deductions or credits. You could reduce your potential 2024 tax bill.

ESTIMATE YOUR TAX LIABILITY

One common mistake business and personal taxpayers make during summer, and any other season's, tax reviews is underestimating their potential tax liability come year-end.

Underestimating income can result in an underpayment and possibly penalties. Relying only on online tax calculators or generic tax advice can lead to oversights and missed opportunities for tax savings. That's why many tax experts recommend you secure professional guidance.

DATA BREACH AND IDENTITY THEFT LOSSES

The average cost of data breaches globally in 2023 was $4.5 million, and increasing.* Identity theft generally goes hand in hand with breaches. What should you do if you're hit by either? Take immediate action to close the breach and protect against future attacks. Then, consider how you might deduct your losses.

Under Sec. 165(a) of the tax code, any taxpayer may deduct losses that (1) are incurred in a trade or business (which would include breach and identity theft losses); (2) are incurred in a transaction entered into for profit, other than through a trade or business; or (3) arise from fire, storm, shipwreck, or other casualty, or from theft. Alternatively, businesses may opt to deduct losses under Sec. 162(a) as "ordinary and necessary" business expense. Individuals may deduct their losses only under Sec. 165(a).

**Cost of Data Breach 2023 Report, IBM*

CLIENT PROFILE

Small business owners Jack and Ally are considering one of them being an at-home parent to their expected baby.

Talking to their tax advisor about the financial aspects, they've learned that annual childcare costs average more than $7,500* per child, up to $3,000 of which may be offset using the dependent tax credit. They also may gain a child tax credit (up to $2,000), regardless of whether they both continue working.

The advisor also emphasized the importance of insurance. The business's health care insurance would continue, however, their only life insurance is what the company offers, so they should evaluate how much coverage they will now need, keeping in mind that if they sell the company, they will lose that coverage. Personally owned life insurance remains in effect, as long as the premiums are paid.

With professional guidance, they learned that Ally can work fewer hours from home, which would provide a paycheck and keep her current in her field. Her family, who lives nearby, is willing to provide in-home childcare when needed.

**The Harris Poll, Dec. 2023*

Client Profile is based on a hypothetical situation. The solutions discussed may or may not be appropriate for you.

IRA MISSTEPS YOU CAN'T AFFORD

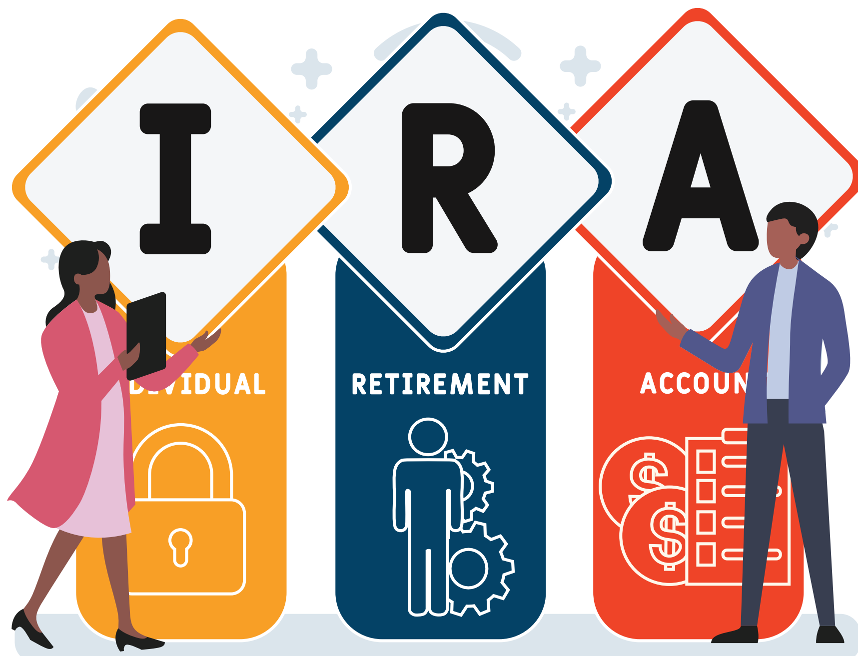
With annual 2024 contributions limited to $7,000 ($8,000 for those age 50 and older), your retirement security can't afford you making mistakes with your IRA. Yet many IRA investors do.

Younger people have many financial buckets to juggle: student loans, car loans, and the expenses of a first-time apartment or home. That doesn't mean you should ignore saving for retirement. It may bring a modem of reassurance to know that while an IRA is not an emergency fund, you may be able to access IRA money without tax or penalties for a financial emergency. Premature withdrawals aren't ideal for anyone, but they're generally better than not contributing to an IRA as early as possible.

Married couples with one earner may forget that they can make annual contributions on behalf of a spouse who is not working. As long as the earning spouse has enough earned income to equal the contributions, each spouse may contribute up to $7,000 ($8,000 for ages 50 and older) to an IRA for the 2024 tax year.

Tax-sensitive procrastinators may make IRA contributions until the April 15, 2025 tax filing deadline. However, keep in mind that last-minute contributions give your investments less time to compound, and you potentially have less money for retirement. If you can't make your contribution all at once at the beginning of the year for optimal compounding, use a monthly contribution strategy to contribute the most you can, the earliest you can. It makes a big difference over the years.

Older IRA owners no longer have to end contributions to traditional IRAs at age 70½, thanks to the Secure Act. Like the Roth IRA, contributions are allowable for people of any age. So as long as you have earned income and can afford to contribute to an IRA you have options. Remember that a Roth IRA has no required minimum distributions and contributions are not tax deductible, unlike traditional IRAs.



AVOID PASSING DEBT TO LOVED ONES

No one wants to think about it, but no one is guaranteed tomorrow. Nearly half of Americans are concerned about passing on debt to loved ones. According to Experian, debt tends to peak somewhere around middle age. Among Millennials, 17% have specific concerns about passing on education debt.* While it is never easy, there are steps you can take to help alleviate this stress.

THINGS TO DO

Make a concerted effort to lower your debt, especially high-interest credit card debt, and avoid accruing more. Buy nothing you don't absolutely need until you've paid off all of your high-interest debt.

A SAFETY NET

Overall, 21% of those who expect to pass on debt don't own life insurance, which is the one thing that you should consider buying as you continue to pay off debt.* Should the unthinkable happen, the benefits can help provide financially for your loved ones. Your financial professional can review your needs and offer coverage options that are usually more afford-able than you may think.

Source: Nasdaq Personal Finance, 2024

Q

I'm a new investor and recently heard the term "Rule of 72". What is it?

A

The rule of 72 is a simple method to estimate how long it would take for an investment to double, given a fixed rate of compound interest.

To use the rule of 72, divide 72 by the annual rate of return. For example, an investor invests $20,000 at a 5% fixed annual interest rate. According to the rule of 72, it could take approximately 14.4 (72÷5) years to double.

Of course, investments such as stocks and mutual funds, have fluctuating returns, but this rule of 72 is one way to think about how fixed compound interest affects your investment.

BEREAVEMENT LEAVE POLICY CONSIDERATIONS FOR EMPLOYERS

You want to be a supportive employer when an employee loses a loved one. Sometimes it can be difficult to know what's needed. A written company bereavement policy, (also known as compassionate leave) can help. Critical elements of a good policy include:

DEFINE ELIGIBILITY

Who qualifies for leave? Full-time, part-time, and/or temporary employ-ees? The policy may also specify that employees must have been with the company for a certain period to be eligible.

PAYROLL TRACKING

Establish a process for recording leaves with your payroll provider.

STATE REQUIREMENTS

Some states have bereavement policy regulations that you should include.

PROCESS FOR REQUESTS

Specify how employees should request compassionate leave. You might require them to submit a written request to their supervisor, a Human Resources representative or complete an online form.

LEAVE AVAILABILITY

This is usually three or four days for the loss of an immediate family mem-ber and less time for the extended family or friends. Employees should be allowed to schedule the days off with their supervisor. Another way of show-ing support for a grieving employee is to offer flex time or the option to work remotely.

WARDING OFF CAPITAL GAINS TAX FEARS

Everyone wants to minimize taxes owed, but the suitability of an investment for you is more important than whether you may, at some time, owe capital gains tax on it. The point is to handle capital gains and not avoid attractive investments that may generate the tax.

KNOW THE FACTS

Long-term capital gains apply to the appreciation of assets you sell after owning them for more than a year. Gains on assets sold within a year of purchase are taxed as ordinary income.

Long-term federal capital gains taxes are 15% to 20% and may be as low as 0% for lower income taxpayers, potentially making capital gains less costly than regular income tax. Remember to budget for the tax you'll owe on gains.

HARVEST LOSSES

Sell losing investments and replace them with assets that offer more promise. Then offset realized capital gains with those losses. But be aware that you'll lose your tax advantage if you repurchase identical securities within 30 days of selling them.

Remember, all of your investments should help move you closer toward your finanical goals, even if it means paying capital gains taxes.

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