ClientLine®

December 2020

NUTS AND BOLTS OF DEPRECIATION

Depreciation is the allocation of the cost of a physical asset over its expected life. It's a way of estimating how much of the asset has been used up. Depreciable assets include things like buildings, vehicles and equipment and there are a few ways to record depreciation on your tax return.

SECTION 179 DEDUCTION

For certain new asset purchases made for business use, you don't have to depreciate the asset over its useful life. Instead you can claim the Section 179 deduction to deduct the entire purchase price as a tax deduction in the year you made the purchase. There are limitations to the amount you can write off and what types of assets are eligible for the Section 179 deduction. Additionally, the asset purchased must be used in an active business. So passive activities, like some rental real estate, won't qualify.

BONUS DEPRECIATION

Like Section 179, only certain asset types are eligible for 100% bonus depreciation in the first year. But unlike Section 179, there is generally no limit on how much you can write off. And while Section 179 can't cause your business to have a loss, if bonus depreciation causes a loss, the loss can be carried forward. Bonus depreciation is available until 2022. After that it begins to phase out until 2026.

REGULAR DEPRECIATION

For assets ineligible for Section 179 or bonus depreciation, you'll generally be left to depreciate your property for tax purposes using MACRS, which is the modified accelerated cost recovery system. Under MACRS you'll categorize assets based on type which will dictate how long you'll depreciate it. For example, office furniture is depreciated over seven years while commercial real estate is depreciated over 39 years.

Consult with your tax professional if you have assets that could be subject to depreciation.

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Unemployment, Side Gigs, and Tax

The pandemic has been front and center most of this year and it may have tax implications for you. If you collected unemployment compensation from either your state or the federal government, it is all taxable as ordinary income. You will receive a Form 1099-G by January 31 that shows you how much compensation you received and how much tax was withheld. If you're still collecting unemployment benefits in 2021, consider increasing your tax withholding with your state unemployment office if you owe taxes for 2020.

And if you picked up a side gig during the pandemic, remember to calculate your business-related expenses. Since you'll be filing Schedule C to report your self-employment income, you'll be able to deduct related business expenses. If you shopped and delivered groceries to people's homes, you could deduct the mileage you drove, any parking fees or tolls incurred during your shopping work and a portion of your cell phone bill.

IMPROVE CUSTOMER SERVICE TO WOW YOUR CLIENTS

Taking your customer service up a notch can reap huge benefits. If you want to retain satisfied clients who help spread the word about your business, use these steps to wow them.

DO WHAT YOU SAY

Everyone appreciates someone who honors their word. Clear communication from the start is key. Mapping out exactly what will be done and when it will be done avoids confusion or disappointment. Communication doesn't stop there. Continually communicating throughout the project establishes trust and integrity. And in the event your client is upset, acknowledging their concerns and correcting any errors is a must.

GIVE MORE

Another sure-fire way to wow clients is to give them more than they expected. Maybe that's giving them a free gift with purchase or honoring an expired coupon or discount. This goodwill can turn a one-time customer into a loyal repeat customer who tells their friends about your company.

OFFER UP

Although you might be hesitant to make a hard upsell pitch, offering free trials or samples of your products is a softer approach. If you have products or services related to what they already have, give them away in small amounts. For example, if they purchased your weight loss coaching program, offer them a free trial to your meal planning service. They will welcome your help in solving additional problems.

BE GRATEFUL

Expressing gratitude comes in many forms and a sincere expression of gratefulness will pay off in the long run. Considering your clientele, find the way to express your gratitude that will resonate with them. If your business serves local clients, maybe attend one of their events or drop off a hand-written thank you card. For e-commerce businesses, send a coupon they can use on a future purchase.

Client PROFILE....

Kara owns a consulting business and in 2021 her employees will be traveling out of state for work. She's never had to reimburse employees for travel expenses so she's wondering whether to give them a travel allowance or reimburse them for actual expenses.

The method Kara chooses can affect her employees' taxes. Reimbursing her employees for actual expenses they incur won't trigger taxes. Kara will want to have employees submit an approved expense report with receipts to request reimbursement.

Alternatively, travel allowances can be taxable income to her employees. If the employee is not required to account for all of their travel expenses, then the entire travel allowance is taxable. Things like providing a monthly car allowance without requiring mileage logs causes the full allowance to be taxable. But if the employee is required to account for travel expenses by submitting an expense report with receipts, they will be required to return any excess allowance within a reasonable time. If the excess isn't returned, it becomes taxable.

However, if Kara uses the IRS' per diem rates and has employees account for expenses, any excess doesn't need to be returned and isn't taxable.

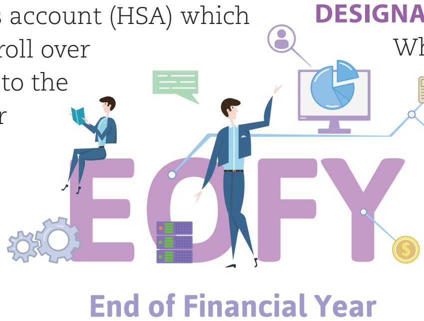
Client Profile is based on a hypothetical situation.
The solutions we discuss may or may not be appropriate for you.

END OF FINANCIAL YEAR TUNE UP

Reviewing where you stand financially before the end of the year means you can take advantage of tax-saving opportunities that end December 31, 2020 and then start financially strong in the New Year.

BE FLEXIBLE

If you have a flexible spending account (FSA), be sure you use all the funds before year's end, unless your plan offers a grace period. Most plans are on a calendar year and unlike a health savings account (HSA) which allows you to roll over unused funds to the next year, your FSA is a use it or lose it plan. You can buy most over-the-counter medications and even glasses with your FSA funds.



INSURANCE CHECK IN

Review all of your insurance policies to ensure they meet your needs and you're not paying too much. Check with your agent to see if bundling multiple types of insurance, like home, car, and umbrella could reduce your rates.

DESIGNATED BENEFICIARIES

While you're reviewing your insurance needs, take a look at your beneficiary information on your life insurance and retirement accounts. If you've gotten married or divorced, you may need to update your beneficiary information.

PICK UP THE PHONE

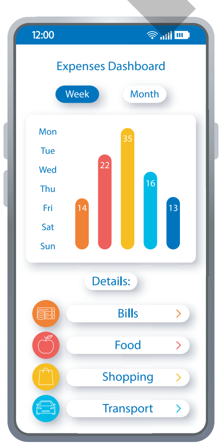
Schedule an appointment with your financial advisor to review your investments.

TRACK YOUR DOLLARS

Do you keep track of all the money you spend in a month? Tracking your expenses will help you take control of your financial life.

SPENDING TRAPS

By tracking your expenses each month, you'll be able to identify negative spending habits that you can change to make your money work better for you. You might find you're paying for services you don't use like a gym membership or a software that you forgot to cancel before the free trial period expired.



FOCUS ON GOALS

If you're planning to buy a house someday or looking to increase your retirement savings, tracking your expenses will help keep you on track to reach those goals. You'll be able to see if you have expenses that can be lowered or if your spending remains in line with your priorities.

ADDITIONAL BENEFITS

When you start tracking your expenses you may find that you worry less about money. Since you'll know where every dollar is going, you won't be anxious wondering if you'll have enough money at the end of the month. You'll feel more confident and because you're keeping track of your spending, you'll be less likely to make impulse buys.

Q&A

Q **Leslie relocated in 2020 for a job opportunity. Her new employer didn't provide any financial assistance for the move. Can she deduct any of her moving expenses from her tax return?**

A Unfortunately, due to the Tax Cuts and Jobs Act, moving expenses are no longer tax deductible. The only exception is for members of the military. If Leslie is an active duty armed services member and moved as part of a permanent change of station, then some of her unreimbursed moving expenses are deductible. She can deduct reasonable costs to move her household goods and personal belongings along with travel expenses to her new home.

Q **I received a CP-501 notice from the IRS claiming I have a balance due, but I don't agree. What should I do?**

A Since the CP-501 notice is the first notice you will receive about a past due amount, you'll want to call the IRS right away using the phone number provided on the notice. But before you call, do your research and have all the information available to explain why you believe there is a mistake. Although talking with the IRS may seem scary, don't ignore the notice. Interest and penalties may continue to be charged and they have the right to place a lien on your property.

ClientLine SHORT BITS....

> OVERTIME UPDATE
Earlier this year, the U.S. Department of Labor adjusted their rule on who is eligible for overtime pay. The new rule updates earnings thresholds required to make executive, administrative and professional employees exempt from overtime. These employees will now need to earn at least $684 per week as a salaried employee and a portion of nondiscretionary bonuses and incentive pay, like commissions, can be used to meet the minimum salary requirement.

> COMMON CENTS
Most U.S. coins are stamped with a letter code to show which branch of the U.S. Mint made the coin. However, the Philadelphia branch doesn't always use a stamp because it was the first Mint branch. And no marks were used from 1965 to 1967. But today, most coins, except those made in Philadelphia, carry the stamp of their creator.

> NON-TRAVEL BENEFITS
Less travel due to the coronavirus pandemic has reaped huge rewards for the planet. According to joint studies by NASA, the European Space Agency and the Japan Aerospace Exploration Agency, air quality improved in parts of Europe with a 50% reduction in air pollution and a 30% reduction in the Northeast US. Similar improvements were seen in parts of India and China.

> UNEMPLOYMENT
The U.S. Department of Labor is providing $100 million to support states in combating and uncovering unemployment fraud. The funds can be used to complete fraud investigations and to implement tools to detect and recover improper pandemic unemployment payments and states are encouraged to adopt new fraud prevention strategies to protect the integrity of their unemployment insurance programs.