ClientLine®

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HOME OWNERSHIP COMES WITH TAX BREAKS

Your house can provide you with more than just shelter. It can provide you with some significant tax breaks if you itemize deductions. Learn more about the most common tax deductions your home can deliver.

MORTGAGE INTEREST

To be deductible, mortgage interest can be for your first and second home. However, only interest on $750,000 of indebtedness is deductible if your mortgage was taken out after December 15, 2017. There are similar limitations on older debt and if you rent your home out, there are use requirements that you must meet in order to deduct the interest.

MORTGAGE POINTS

You can pay “points” to lower your monthly mortgage payments. However, points are complicated, affect your taxes and too often, homeowners do not recoup their upfront investment. If you refinance, pay off or sell your home before you reach the break-even point, you will not regain your money. A good lender can help guide your decision.

MORTGAGE INSURANCE

For borrowers who pay mortgage insurance as part of their mortgage, the good news is that it can be deductible if the mortgage was obtained after 2006. And this deduction begins to phase out for adjusted gross incomes above $50,000 for single filers.

PROPERTY TAXES

Most homeowners who itemize deductions will be able to deduct property taxes paid to their state and local governments. But the maximum amount of property taxes that are deductible is $10,000. The taxes must have been due and paid by the end of the year to be deductible. So, unfortunately, any prepaid taxes will be deductible in the year it was due, not paid.

HOME OFFICE USE

If you find yourself working from your home, you may be able to claim the home office deduction. This deduction is only available for self-employed business owners. For this deduction, you can deduct things like a portion of your utilities and home maintenance expenses.

Check with your tax professional to ensure you’re getting the maximum deduction.

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Get Prepared

Now’s the time to get your company’s books ready for tax time.

Your tax preparer may have a checklist to help you get organized. Start by reconciling your accounts as of December 31.

If you owe any 1099s to independent contractors, you have until the end of January to get those out and don’t forget you’ll need to send copies to the IRS.

Pull out receipts for depreciable assets purchased in 2020. Your tax preparer will need these to update your records and calculate depreciation for your tax return.

Once you have all your tax documents ready, call your tax professional to schedule your appointment early so you can file your taxes on time.

A word to the wise: Do not underestimate the importance of accounting for the survival and growth of your business. Work with your accountant throughout the year—not just at tax time—to monitor cash flow and profits.

ESTATE PLANNING CHECKLIST

Estate planning is the process that allows you to designate what happens to your assets when you become incapacitated or die. Using a checklist can help you get started.

1. TAKE INVENTORY

Make a complete list of all your assets. While you'll want to include the obvious ones like your home and bank accounts, don't forget about other valuables like jewelry and artwork. And if you have any recent appraisals for your home or jewelry, use those to estimate the value of your assets.

2. REVIEW YOUR NEEDS

Do you have children that you need to provide for and are they young enough that you need to name a guardian for them? Do you have enough life insurance to support your family, if needed? Take a careful look at what your family will need and talk with your financial professional to initiate a plan.

3. CREATE DIRECTIONS

You'll want to ensure that all your directives are current, in writing and in compliance with your state's laws. A trust can help you bypass the probate process and provide control of how your assets are distributed. A medical directive, also called a living will, lays out your medical wishes in the event you are unable to make decisions for yourself. And a durable power of attorney allows you to appoint someone to handle your financial affairs if you're unable to do so for yourself.

4. REVIEW DESIGNATED BENEFICIARIES

It's good to review your beneficiaries regularly and certainly after major life events, like having a baby or getting married. Ensure the beneficiary information on life insurance and retirement accounts align with your will. If there are differing beneficiaries, your state's laws may dictate that designated account beneficiaries trump what your will says.

Client PROFILE••••

Josh is starting a new landscape business. He's heard bits of information about various business structures, including sole proprietor, LLC and an S-Corp. Which of these forms of business would offer him the most tax advantages?

Entity selection can be confusing. For tax purposes, limited liability companies with only one member are considered disregarded entities and are viewed the same as a sole proprietor. Although these two provide different legal protections, for tax purposes, there is no difference.

Regardless of whether Josh legally forms his business as a sole proprietor or a single member LLC, he can choose to be taxed as an S-Corp which would enable Josh's business to take certain tax breaks not available to sole proprietors. Josh will be an employee of the the S Corp. and he'll avoid paying self-employment tax by paying himself a reasonable salary. If he does that, he'll be able to take distributions of the company's profits tax-free since the IRS considers this a distribution of equity. Many factors, including industry and size of the company, will determine what is considered to be a reasonable salary.

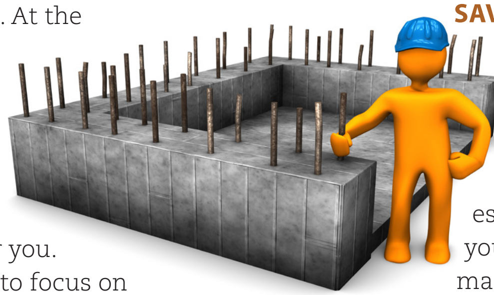
Client Profile is based on a hypothetical situation. The solutions we discuss may or may not be appropriate for you.

START 2021 ON SOUND FINANCIAL GROUND

A new year and a new start to your goals. Follow these helpful tips to get your year started on a sound foundation.

REVIEW YOUR SPENDING PLAN

Look back on your spending for 2020 and see which areas you need to adjust for 2021. At the same time review your financial goals and make sure they still make sense for you. You may want to focus on those goals or add new ones.



FUND YOUR EMERGENCY ACCOUNT

Last year showed many of us why an emergency fund is important. Being prepared for unemployment or unexpected expenses is important. Aim to accumulate at least two or three months of living expenses for emergencies. However, the more you have put away the better.

SAVE FOR RETIREMENT

Keep putting money into your retirement accounts. Consider increasing your contribution, especially if it will gain you a larger employer match.

FINE TUNE YOUR FINANCIAL PLAN

While saving for emergencies and retirement, consult with your financial professional to ensure all your long-term financial goals are addressed. Evaluate all insurance coverage to make sure it is adequate or if you need to establish a trust.

BUILD LASTING RELATIONSHIPS WITH A LOYALTY PROGRAM

Do you know that it costs five times more to attract a new customer, than it does to retain an existing one?* That is just one reason why companies focus their efforts on customer retention.

THE VALUE OF CUSTOMERS

According to research conducted by Bain and Company, current customers are 50% more likely to try a new product of yours as well as spend 31% more than new customers. The study also revealed that increasing customer retention rates by 5% increases profits by 25% to 95%. Happy customers also send referrals your way and advertise your brand.

CUSTOMER LOYALTY PROGRAMS

A loyalty program does more than reward customer loyalty. It attracts new buyers and enables you to collect data about who is buying your products. This insight helps you to make informed decisions about marketing strategies that reach your target audience. The statistics also provide details about what products are preferred, which can assist when buying inventory.

LOYAL RELATIONSHIPS

Customer retention and referrals bring continued business while keeping costs to a minimum. There are many types of loyalty programs from which to choose. It all impacts your bottom line.

**Research by Fred Reichheld. Fellow at Bain and Company*

Q&A

Q **I worked as a ride share driver for the first time in 2020. What will I have to pay tax on?**

A Ride share drivers have to pay tax on the total income they receive from the ride share service, less all applicable deductions. You'll be able to deduct your ride share mileage at the IRS (2020) rate of $0.575 per mile. And if you incurred parking fees or tolls while driving, you can deduct those too.

If you made more than $600 in 2020, you will receive a 1099-MISC form from the company. This form will tell you how much income you made that you need to report.

Q **We sold our home last year. Will we have to pay taxes on the sale?**

A If the home you sold is your primary residence and you lived in it for two of the last five years, up to $500,000 of the gain is excluded from your federal income tax, if your tax filing status is married filing jointly.

But if you sold a primary residence within the last two years, you can't claim another exclusion for two years. There are some exceptions for events such as divorce or death of a spouse. Consult your tax professional if your situation is not straightforward.

ClientLine SHORT BITS....

> MORE DEDUCTIONS

According to the IRS, nearly 88% of taxpayers claimed the standard deduction in 2018. This is up from 68% in 2017. The increase is likely attributed to the increase in the standard deduction in 2018, thanks to the Tax Cuts and Jobs Act, which increased the standard deduction from $6,350 in 2017 to $12,000. Fewer taxpayers found enough itemizable deductions to overcome the hefty standard deduction.

> WORK TENURE

The Bureau of Labor Statistics announced that employee tenure at January 2020 was 4.1 years and has barely changed from January 2018 when it was 4.2 years. Manufacturing employees remained with an employer the longest at 5.1 years and by contrast, employees in the hospitality sector had the shortest tenure at just 2.3 years.

> HOUSING BOOM

The first half of 2020 saw a near record amount of mortgage lending thanks to record low interest rates. A total of $1.8 trillion was lent in the first six months of 2020, just off the record of $1.82 trillion, set in the first half of 2003, according to Black Knight, a mortgage data company. The average mortgage loan size has also increased. But due to the current economic situation, lenders are requiring more information and real-time employment verification making applying and qualifying for a mortgage tougher.

> CREDIT JUMP

According to Experian, the average FICO credit score in 2019 was up 2 points to 703. And 1.2% of Americans held a perfect 850 FICO score. This is a result of Americans making better credit decisions and actively monitoring their credit for accuracy. By state, Minnesota consumers come in with the highest average rate of 733 in 2019 while Boulder, Colorado's consumers hold the highest score for a city at 743.