

ClientLine[®]

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SIMPLE IRA VS. SEP IRA

Most people have heard of Roth and Traditional IRAs. But two other types of IRAs are less commonly known: the SIMPLE IRA and the SEP-IRA, which are available to small business owners. They have similarities, but also some key differences.

IT'S SIMPLE

A SIMPLE IRA operates a lot like a traditional IRA, but has higher contribution limits. For 2021, the contribution limit is \$13,500, with a catch-up contribution of \$3,000 for those 50 and older. And there is no Roth version of a SIMPLE IRA.

Like a 401(k) plan, both the employee and employer can make contributions. The employer must either match a portion of the employee's contribution or make a contribution equal to 2% of an employee's compensation.

SIMPLE IRAs are limited to businesses with 100 or fewer employees. So, if your company grows larger than that, you'll have to transition to a different retirement plan down the road.

PENSION IN NAME ONLY

A SEP-IRA is officially called a simplified

employee pension. But it isn't a pension. Only the employer is able to make contributions, which are limited to the lesser of 25% of an employee's salary or \$58,000 each year. Employers choose how much to contribute and they don't have to do it each year. But contributions must be proportional for each employee, which can affect how much the business owner can contribute to a personal account.

All employees must be included if they meet specific eligibility rules for age, longevity, and compensation amounts.

If you're self-employed, utilizing one or both of these plans can help boost your retirement savings beyond that of a traditional or Roth IRA. Work with your financial professional to establish a plan that works best for you.



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Business Start-Up

Starting a business involves research, planning and making critical financial and legal decisions. Once you've landed on your product or service offering, consider these steps when launching your new business.

Funding- Will you fund it or will you seek outside capital from investors or businesses?

Structure- How you structure your business impacts your registration requirements and taxes.

Location- Selecting your location, whether it's a storefront or an online store, impacts your taxes and legal requirements.

Register- Once you've settled on a business name, register with your state to ensure no other businesses are operating with your name.

Bookkeeping- Keep personal and business finances separate by opening a business bank account.



TRIPLE TAX ADVANTAGES OF HSAs

If you have a high-deductible health insurance plan, you're likely eligible to open a health savings account (HSA). Similar to flexible spending accounts, these tax-advantaged savings accounts allow you to contribute money to cover your medical expenses. But HSAs have three distinct tax advantages.

TAX-FREE CONTRIBUTIONS

Just like 401(k) contributions, you can make pre-tax payroll deductions to fund your HSA. You'll benefit from having lower taxable income and a generous contribution limit. In 2021, a family can contribute up to \$7,200 while singles enjoy a \$3,600 limit.

TAX-FREE GROWTH

If your HSA funds are invested in mutual funds, stocks, or other similar vehicles the earnings are tax-free, leaving more money to cover medical expenses. Unlike a flexible spending account (FSA), where contributions don't roll over at the end of the year, money in an HSA can be used in the future. And HSAs don't have required minimum distributions like 401(k) or IRA plans.

TAX-FREE WITHDRAWALS

When your HSA funds are used to pay for qualified medical expenses, these withdrawals are tax-free. Qualified medical expenses include things like office visits, co-pays, dental expenses, vision care and prescription medication for you, your spouse, or your dependents. Just remember you can't use HSA money to pay for medical expenses you incurred before establishing your HSA.

RETIREMENT PLANNING & HSAs

Using an HSA is not only a savvy way to save on taxes; it can help you in retirement. If you contribute to your HSA while not making withdrawals you could accumulate a sizeable fund to help cover your medical expenses in retirement. Medicare premiums are a qualified medical expense, so you could use your HSA funds to pay your premiums once you retire.

Client PROFILE....

Beth is self-employed and preparing to file her taxes, but hasn't received some of her 1099s. She doesn't want to file for an extension. What should she do?

Fortunately, Beth doesn't need her 1099s to file her tax return. Unlike W-2s, 1099s don't need to be submitted with a tax return.

Beth has a few options. She can call her customers and ask for a duplicate 1099. However, if she earned less than \$600 from her customer, they aren't required to provide a 1099, and therefore they likely didn't prepare one.

If she uses accounting software to track her revenue and expenses, she can use a profit

and loss report to calculate her income. Alternatively, she can review the bank statements from her business bank account and track the deposits she received. Hopefully, if she received cash payments, she kept a log of them since she'll need to include her cash payments as income on her tax return. And if Beth uses electronic methods such as PayPal to receive money from her customers, she'll need to include these payments too.

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

WORKERS' COMPENSATION INSURANCE

Workers' compensation insurance provides benefits to employees who become ill or injured on the job and offers employers some protection from injured employees' lawsuits. The premiums are paid by the employer.

STATE MATTERS

Workers' compensation programs are administered at the state level and the requirements vary. Some states require insurance when you hire your first employee and some exempt certain agricultural and construction businesses.

Some states don't require coverage for certain kinds of workers. Independent contractors, domestic home workers, volunteers, and seasonal workers are generally not required to be covered by workers' compensation. And business owners generally can choose to be exempt from coverage.

WHAT'S COVERED

Generally, any work-related injury or illness qualifies for workers' compensation benefits. The injury can

be sudden, like a fall, or can be long-term, like carpal tunnel or lung diseases from working in coal mines or around asbestos.



NAME THE PRICE

Rates and premiums are set by the state and consider the employer's type of business and the employee's job classification. For example, trucking companies usually have

higher premiums than an attorney's office. Also, the volume and dollar amount of an employer's past claims will usually increase premiums.

SHARING INFORMATION

Employers are required to post notices that inform employees of their rights and benefits that are available. And if an employee incurs an injury, the employer must provide a claim form promptly.

FLEXIBLE WORK ARRANGEMENTS

Offering the right benefits to your employees keeps them engaged and motivated. Besides monetary benefits like a competitive salary or health insurance, consider non-financial perks like flexible work arrangements.

FLEXIBLE LOCATIONS

Telecommuting or remote working are two options for flexible locations. With telecommuting, employees usually work in the office certain days and work outside the office the other days. Remote employees work outside the office all the time. The benefit of offering flexible locations is that you can recruit talent from all areas, rather than just locally.

FLEXIBLE SCHEDULES

Instead of employees working 9-5 Monday through Friday, consider letting them choose the schedule that works best for them. Night owls may be more productive working from 2 pm to 10 pm. You could offer a compressed work week that allows employees to work four 10 hour days. You'll want to ensure you have proper employee coverage and have employees commit to their chosen schedule.

... Q & A

Q I will claim an automobile deduction on my tax return and have used the standard mileage rate in previous years. However, in 2020 I incurred significant car expenses that will outweigh the standard mileage deduction. Can I switch to deducting actual costs for 2020?

A Yes, you'll be able to switch to the actual expenses method if you own your car and you used the standard mileage rate in the first year that you used your vehicle for business. The rules are different though if you lease your car. If you're leasing your car, you'll need to take the standard rate for the entire lease term.

Q I've heard that I should have errors and omissions insurance, but I'm not sure what it is and why would my business need it?

A Generally, errors and omissions (E&O) insurance protects against litigation claiming you made a mistake while providing a professional service. Some of the common types of claims that E&O insurance covers include: negligence, errors, omissions, misrepresentation, and inaccurate advice. This type of insurance usually covers court costs and settlement amounts, which can quickly add up. If your business is vulnerable to such lawsuits, then you should consider carrying E&O insurance.

ClientLine® SHORT BITS....

> FAST STIMULUS PAYMENTS

The IRS successfully delivered millions of stimulus payments during the COVID-19 pandemic last year. Within two weeks of the passage of the CARES Act, the IRS distributed \$147 billion to more than 81 million people. By comparison, in 2008, the last time stimulus payments were issued by the IRS, it took 75 days to get the first payments out. With the launch of the Get My Payment tool, an additional 16.6 million requests for payment were received. By the end of October 2020, the IRS had delivered approximately \$270 billion in stimulus relief to taxpayers.

> SOCIAL SECURITY INCREASES

Approximately 70 million Americans are seeing a 1.3% increase in their Social Security benefit payments in 2021. Federal benefit rates increase when the cost-of-living rises, as measured by the Department of Labor's Consumer Price Index. These cost of living adjustments were first enacted in 1972 and automatic annual adjustments began in 1975. The year that saw the highest adjustment was 1980 with a 14.3% increase, while there have been several years with no adjustment, most recently 2016.

> WOMEN'S HISTORY

National Women's History Month goes back to 1857 but wasn't officially recognized by Congress until 1981. According to the U.S. Census Bureau, women age 85 and older outnumber men in the same age bracket two to one. And overall, there are slightly more females than males in the U.S. In 2018, there were 166 million women compared with only 161 million males and earnings difference still exist. While 58% of women, age 16 and older, participate in the workforce they only earn 82% of what males earn for similar work.

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