ClientLine®

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WHEN'S THE RIGHT TIME TO COLLECT SOCIAL SECURITY?

Choosing when you'll start collecting Social Security benefits is a personal decision and the right time to begin varies from person to person.

EARLIER ISN'T ALWAYS BETTER

You're eligible to begin collecting Social Security as early as age 62, but that means you'll receive a lower monthly payment, in some cases nearly 30% less than if you wait until you reach what the Social Security Administration calls your full retirement age. Depending on when you were born, this is somewhere between ages 66 and 67. Waiting four or five more years can increase your monthly and lifetime payout significantly.

Waiting the extra years until you reach full retirement age may not be a viable option if you're no longer working, have limited retirement savings and need the money to pay your bills. In that case, collecting Social Security is the right move.

A DELAY CAN PAY

If you're still working or have retired but have other accessible retirement funds, waiting until you're age 70 to start collecting may make sense. That's because for each year you wait beyond your full retirement age, up to age 70, your annual benefit increases by 8%. That means you could see up to a 32% increase in your monthly payment.

EARLY INVESTING

Maybe you're thinking about claiming your benefits at age 62 and investing the proceeds because you don't need the money. Keep in mind that if you invest those funds in the stock market, there's a chance you'll lose some money—or you could earn more than 8% annually.

Depending on your other sources of retirement income, this may or may not be the right option for you. Check with your financial professional to discuss your situation.

ADDITIONAL CONSIDERATIONS

Some non-working spouses may be entitled to payments of up to 50% of the working spouse's benefit amount. These spousal payments don't decrease the amount of benefit received by the working spouse.

Also, you may be able to collect benefits based on your former spouse's earning record if you were married at least ten years, been divorced for at least two continuous years, are currently unmarried and at least age 62.

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Clarifying Business Meal Expenses for 2021 and 2022

The IRS recently clarified what types of business meals qualify for 100% expensing in 2021 and 2022. Meals must come from a restaurant, defined as any business preparing and selling food or beverage to retail customers for immediate consumption. Whether the food is consumed on the premises doesn't matter.

Businesses selling pre-packaged food and drink that's not for immediate consumption (e.g., grocery stores, liquor stores, and vending machines) don't qualify.

This means dine-in, takeout and food carts/trucks all qualify. Everything else is out.

Remember that for a business meal to qualify as tax-deductible, it must have a business purpose, must not be lavish or extravagant, must have the business owner or employee present along with a business contact (e.g., customer or vendor) and must meet the ordinary and necessary definition (which we discuss on page 3).

Be sure to keep itemized receipts, not just the signed credit card slip, and write on the receipt who was present and what topics were discussed.

NEGOTIATING POST-COVID BENEFITS

As companies open again, employers may have discovered that a new normal may increase employee satisfaction and productivity. For example, remote work may have worked best for some, while others prefer the socialization of the workplace. Here are some things to consider:

INCREASED FLEXIBILITY

Employees who have worked remotely for more than a year may be hesitant to return to the office full time, instead preferring a flexible or hybrid office schedule. If possible, offer employees the option to work from home a few days a week. This means your employees will be happier and it may allow you to reduce the footprint of your office space, saving your business money.

DON'T SWEAT THE SMALL STUFF

With employees requesting more flexibility, it might mean that perks — like an on-site gym or coffee bar — may not be valued as much by a workforce that doesn't frequent the office. Some employees may elect to give up these small perks to have a flexible work schedule.

MONITOR PRODUCTIVITY

It might be easy to fall into the trap of requiring more from remote employees because they no longer have to commute. Don't expect them to substitute their former commute time with more working hours. Demanding hyper-productivity can lead to burnout, frustration and negativity that may cause hard-working employees to quit. Respect normal working hours and avoid meetings or phone calls outside of that time frame.

BRING IT BACK IN

If you determine that you need your employees to return to the office, respect that some of them may have safety concerns.

Also acknowledge that returning to the office, after more than a year of remote work, will be an adjustment. Employees will need to acclimate to the high-stimulus environment of the worksite, with sounds and activity all around them. This can create sensory overload initially, so prepare for employees to ease back into the office. Every company is different and any changes need to work well for yours.

Client PROFILE...

At the suggestion of a friend, Bruce started day trading stocks in his brokerage account. He's had fun and made quite a bit of money, but has also lost money. Then he received an unexpected $20,000 tax bill due to numerous wash sales.

To prevent taxpayers from selling securities for no other reason than to generate a loss that reduces their taxable income, the IRS created the wash sale rules. In short, if you sell a security at a loss and then within 30 days before or 30 days after that sale, you purchase the same or substantially the same security, you've generated a wash sale and triggered those rules.

Wash sale rules prevent you from immediately recognizing the loss. Instead, the loss is added to the cost of the repurchased securities. This, in effect, delays recognition of the loss until you sell the repurchased securities. So, if you're counting on these types of short-term sales to offset your gains, like Bruce, you'll be in for an unpleasant surprise at tax time.

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

DEDUCT MORTGAGE INTEREST

Buying a house in this red-hot housing market comes with tax perks for those who itemize deductions.

KNOW YOUR LIMITS

The interest you pay on the first $750,000 of acquisition debt is tax deductible. Acquisition debt is any debt used to acquire, construct or substantially improve a residence and is secured by the home.

Interest on acquisition debt for a second home may also qualify depending on whether you rent it out. If you rent your second home, you'll also need to use it yourself. If you don't use the home, it'll be considered rental property with a different tax treatment. The rental property mortgage interest deduction also offers significant tax benefits.

LOOK AT THE DETAILS

If you take out a home equity loan, the interest may be deductible. You'll have to look at the details of how the loan proceeds were used.

Suppose the proceeds were used to improve the house by remodeling the kitchen. In that case, the interest paid on the loan is deductible so long as the principal amount of the home equity loan and any other acquisition debt is below the $750,000 threshold.

But if you used the home equity loan to pay off student loans, for example, the interest isn't deductible. Your tax professional can provide guidance for your situation.

DEDUCT BUSINESS EXPENSES

Not all business expenses are created equally. Only those that rise to the "ordinary and necessary" threshold become tax deductible.

IT'S OK TO BE ORDINARY

To qualify as an ordinary business expense, it must be normal, usual, or customary for the type of business. Some expenses that may only happen once in a business's life cycle, like a lawsuit, have been deemed ordinary business expenses because businesses often face legal challenges.

DO YOU NEED IT?

Necessary business expenses are those deemed appropriate and helpful. Determining whether an expense is appropriate and helpful is generally a judgment call based upon the type of business and the industry in which the company operates.

A key factor in determining necessity is that the expense can't be primarily personal. That means if you own a plumbing business and have a passion for racing dirt bikes, placing your company's logo on the bike, the trailer or your race jersey likely won't satisfy the appropriate-and-helpful criteria.

... Q&A

Q **How can my business build a credit score?**

A If you haven't already opened a business bank account, do this first. Next, apply for a business credit card. Although you may have to personally guarantee it, having a credit card in the company's name will start to build your corporate credit history.

Ask your vendors whether they report payments to business credit bureaus. If they don't, consider doing business with vendors that do. Then review your company credit report as you would your personal report, and correct any discrepancies.

Q **How do I know if I should be making estimated tax payments?**

A Because the US uses a pay-as-you-earn tax system, you must pay your tax bill throughout the year. Generally, if you work a W-2 job, have a reasonable amount of tax withheld from your pay, and have no other significant source of income, estimated tax payments aren't necessary.

Estimated tax payments are needed if you have self-employment income because you have no paycheck to withhold tax from. Also, if you have significant amounts of interest, dividends, alimony, or capital gains, then estimated payments may be necessary. Speak with your tax professional who can let you know whether you should be making estimated payments.

ClientLine® SHORT BITS...

> COLLEGE ON HOLD

According to a recent survey by Junior Achievement and Citizens, one-quarter of 2020's high school graduates delayed their college plans because parents or guardians were less able to provide financial support due to the financial strains of the COVID-19 pandemic. As education costs continue to rise, students' perspectives about their future are changing. Another survey of high school students found that only 53% think attending a four-year school is a possibility. This is down from 71% in 2019.

> BOTHERSOME TAXES

Many Americans are bothered by the US federal tax system. According to a Pew Research Center Study, 59% of Americans were concerned that some corporations and some wealthy people don't pay their fair share. The complexity of the federal tax system is an issue for 47% of Americans while 49% believe that they pay more than their fair share of taxes considering what they get from the federal government in return.

> FINANCIAL EDUCATION FOR VETS

The Veterans Administration is hosting free monthly financial education classes it calls Wellness Wednesday Financial Education, to help transition service members and their families. The classes are held online on the third Wednesday of every month. Previous classes have focused on budgeting, the importance of building an emergency fund and personal financial health.

> BACK TO SCHOOL

According to the National Retail Federation, households spent an average of $800 on back-to-school supplies in 2020 while back-to-college households spent $1,059. Most of this was spent on electronics or computer-related equipment, with clothing seeing the second-highest spending amounts.