

ClientLine®

December 2021

YEAR-END TAX SAVING TIPS FOR INDIVIDUALS

As the sun sets on 2021 and we look forward to a new beginning in 2022, keep these last-minute tax savings in mind.

MAKE A GIFT

Just like in 2020, you can make a cash donation of up to \$300 to a qualified charity and claim it on your 2021 return, even if you don't itemize deductions. And for itemizers, you can still donate up to 100% of your adjusted gross income. The old 60% threshold returns in 2022. But don't wait. You'll need to make all your donations by December 31.

BE FLEXIBLE

If you're enrolled in a flexible spending account (FSA), be sure to save the maximum your budget allows. In 2021, you can put a maximum of \$2,750 into an FSA. And thanks to the December 2020 stimulus legislation, any unused funds can be rolled over to 2022. Typically, FSA funds are used or lost each year.

SPEED IT UP

It might make sense to accelerate paying some of your last-minute bills. Paying those doctor or medical bills before the end of the year counts toward your itemized medical expense deduction. And paying your property tax bill now, even though it's due in January, means you can claim that

expense on your 2021 tax return.

HARVEST LOSSES

Selling investments that have lost money can help offset gains from other investments. This is called tax-loss harvesting, and we discuss it in more detail on page 3.

GATHER IT UP

If you started a side hustle in 2021, maximize your tax deductions with your business expenses. Sift through your electronic receipts for things like your internet service and cell phone charges. Generally, a portion of these costs are tax-deductible. Keep copies of your receipts and

document how you calculated the business amount. And don't forget about your car. If you kept a mileage log for your business trips, you could deduct a chunk of your actual expenses or \$0.56 per mile.

CONVERT IT

Consider converting your traditional IRA to a Roth IRA especially if you can pay the tax due on the IRA withdrawal out of pocket. If you believe taxes will be higher when you retire convert now and pay today's lower tax rate.



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End of the Year Tax Tips for Businesses

Before the clock strikes midnight on December 31, make sure your business is prepared to maximize its tax savings for 2021.

Treat your employees to a holiday lunch at a local restaurant. Business meals eaten at restaurants are 100% tax-deductible for 2021. You can also take your best customers out for a nice dinner to thank them for their continued support. Be sure to keep your itemized receipts and write on them who was there and what business topics you discussed.

Instead of providing employees with year-end cash bonuses, consider putting that money toward paying their student loans. Either way, you'll get the full tax deduction, but your employees may appreciate the loan pay down more.

Get your accounting records organized for your tax professional. With numerous tax law changes over the last two years, your advisor has been working non-stop, trying to keep up. Being prepared with your documents will make tax time less stressful for both of you.



FINANCIAL STATEMENT RED FLAGS

Reviewing your company's financial statements often can catch problems early before they turn into bigger issues. Beware of these red flags.

CASH IS KING

While a shortage of cash generates concerns about overspending, slowed sales or collectability of your receivables, growing bank accounts can be problematic too.

It's easy to think that having too much cash is a good thing. But unless you're stockpiling funds for a major purchase, excess cash can suggest that vendors aren't being paid, unnecessary interest is being incurred on debt or growth and investment opportunities are being missed.

MONITOR THE CURRENT SITUATION

When your current assets (e.g., cash and receivables) are less than your current liabilities (e.g., vendor payables and payroll liabilities) it may mean you may have trouble meeting your short-term obligations. This is especially important for seasonal businesses to manage when there may be parts of the year when you have more bills than sales.

MAKE A PROFIT

Shrinking profit margins deserve a closer look into your operations. Your profit margin is what's left over after you subtract your product's cost from your sales, and it's used to

cover your administrative expenses. Smaller profit margins may cause you to rely on short-term sources of cash, like credit cards or lines of credit, meaning you'll pay interest.

GET INTO THE DETAILS

It's not uncommon to have a line item on your income statement for "other expenses." It's an easy catch-all for costs that don't fit nicely in established categories like wages or rent. But when your other expenses are higher than usual, dig deeper. It could be something as simple as a recording error or a one-time expense. You'll want to confirm that nothing is out of line.

RISING INVENTORY

If your inventory is increasing, but nothing else has changed, it might mean items aren't selling. And the longer inventory sits on the shelves there's a higher chance that it will spoil or become obsolete. Devise a plan to get items moving again.

Client PROFILE...

Bruce has been taking required minimum distributions (RMDs) from his retirement accounts for four years, and he's concerned that the amount of required withdrawals will lead to premature asset depletion. What can he do?

One quick way to look at RMDs is that they are required distributions, not required spending. While Bruce is required to take withdrawals each year, he's free to reinvest the amounts. In some cases, he can put the funds into a Roth IRA, and he can always put the RMD proceeds into a taxable brokerage account.

Total portfolio withdrawals matter to portfolio sustainability, so if Bruce is concerned that his RMDs are too high, he can hold back on withdrawals from his non-RMD-required accounts.

And unless Bruce's goal is to leave substantial assets to charity or his heirs, withdrawals should step up as the years go by and life expectancy declines. RMDs start at 3.6% but ramp up to nearly 12% by age 95. Since these percentages may seem high compared to the 4% rule some retirees are familiar with; Bruce should consult with his financial professional to find the best solution for his situation.

Client Profile is based on a hypothetical situation.

The solutions we discuss may or may not be appropriate for you.

WHY JOB COSTING IS IMPORTANT

Operating a profitable business means knowing how much it costs to complete a project. With prices going up, it's especially important to review costs now.

TRACK ALL OF THE COSTS

Job costing is the process of totaling the cost of materials, labor and overhead used to complete a specific job. When summarizing all of your expenses in bulk, it's hard to understand where you're profitable and where you're losing money.



BETTER BIDDING

You can use your historic job costing when creating bids or quotes for new jobs, saving you time. And when you review your past jobs, you can start to identify trends. For example, if you run a

construction company, you may find that residential remodel jobs are more profitable than retail store buildouts. Now you can bid on jobs that bring you the best margins.

PAY OFF

With accurate job costing, you know how long it takes staff to complete a project so you can better manage employee scheduling. And

job costing can reduce the likelihood of unexpected expenses that can lead to disputes with customers when deciding who must pay for them.

TAX-LOSS HARVESTING

If you've traded stocks or other capital assets in 2021 for a gain, you can offset your profits by selling securities that have lost value. This is called tax-loss harvesting.

KNOW YOUR LIMITS

You can deduct capital losses to the extent you have capital gains. And if your losses exceed your capital gains, you can offset up to \$3,000 against your ordinary income. You can carry forward any leftover losses to future tax years.



substantially identical security within 30 days of the sale, the loss generally can't be taken in the current tax year.

CHECK THE CALENDAR

Some investing work, such as opening and funding an IRA, can be made until the tax-filing deadline. However, with tax-loss

DON'T FORGET THE WASH

When tax-loss harvesting, be aware of the wash sale rules. If you sell a security at a loss and buy the same or

harvesting, there is no such grace period. You'll need to complete all of your sales no later than December 31.

... Q & A

Q I've misplaced my 2019 tax return. How can I get a copy?

A You can get a copy of your tax transcript free and immediately on [IRS.gov](https://www.irs.gov). A transcript summarizes key data like adjusted gross income, deductions and tax amounts. But if you need a copy of an actual tax return, you'll need to mail Form 4506. There's a \$43 fee per return, and it can take the IRS up to 75 days to process your request. In the future, keep electronic copies of your tax returns and all of your supporting documents.

Q Is registering a DBA all I need to form my business?

A Registering a doing business as (DBA) name without first forming an LLC, corporation or other legal entity means that your state will recognize your business as a sole proprietorship. As a sole proprietor, you can legally operate a business in your state under this fictitious, assumed, or trade name. But keep in mind that you'll lack the legal liability protections and tax breaks that come from running other types of businesses. And if you want to do business in other states, you'll need to register the DBA there.

ClientLine® SHORT BITS...

> SUPPLY SHORTAGE

In a recent Gallup poll, 60% of US adults said they could not get a product they wanted last summer because of shortages, and 57% said they'd experienced significant delays in receiving the product they ordered. Over 80% of those surveyed experienced considerable price increases. These scarcities and delays are primarily caused by labor shortages and difficulty securing raw materials.

> GRANTS GIVEN

The US Small Business Administration recently awarded \$2.7 million in grants to women-owned businesses impacted by

the COVID-19 pandemic. Grants of up to \$200,000 were given to 14 organizations to help inspire active female entrepreneurs across the country and aid women-owned businesses in expanding their products and services to meet the changing post-pandemic economy.

> OLDER WORKERS

According to the US Bureau of Labor Statistics, America's workforce has changed a lot in 40 years, and it's getting older. Between 1979 and 2019, the fraction of the workforce that's 65 years or older increased from three percent to seven percent, partly due to longer lifespans and a decrease in

physically demanding jobs. And there are fewer teenagers in the workforce today. They made up about eight percent of workers in 1979 compared to only three percent in 2019.

> SHORTER WEEKS

Scotland joined Iceland, New Zealand and Japan in a trial run of four-day workweeks to boost employee productivity and happiness. Workers won't see a pay cut for the decreased hours thanks to \$13.8 million in governmental funding. Results from Iceland's shortened workweek implemented in 2015 show that over 80% of workers reported a better work-life balance.

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