ClientLine®

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UNDERSTANDING CAPITAL GAINS AND LOSSES

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How you manage the sale of your investments impacts your overall tax picture. And to get the most out of the current tax law, you'll need to understand capital gains and losses.

WHAT'S A CAPITAL ASSET?

Capital gains or losses are generated when you sell capital assets, which are generally any property you own. Your house, car, stocks, bonds, jewelry and collectibles are all capital assets.

SHORT OR LONG-TERM?

There are two classifications of gains and losses, based on how long you owned the asset. Short term means you held the investment for one year or less, and long term applies to anything you owned for more than a year.

WHAT'S THE AMOUNT?

Generally, the amount of your gain or loss is the difference between how much you paid to purchase the asset and the amount you sold it for. Your basis in the asset also includes your costs to acquire it like sales tax, shipping and installation or set up fees. There are special rules for assets acquired by inheritance. You'll want to consult your tax professional if this applies to you.

WHAT'S THE TAX?

The tax rate you'll pay depends on whether your gain is short or long term. Tax rates for short term gains are the same as what you owe on your ordinary income. Long term gains have lower preferential tax rates.

WHAT'S A LOSS?

If you sell a capital asset for less than your basis, which is your total investment in it, you'll have a capital loss. You can generally offset these losses against gains of the same type (e.g., short term losses can offset short term gains). But only losses on the sale of financial investments are tax-deductible. Selling your home, car or other personal-use property for a loss won't trigger a tax deduction.

And if your losses exceed your gains, you can offset up to $3,000 against other types of income (e.g., W-2 wages) each year and carry forward the rest to future years.

But beware of the wash sale rules. If you sell a security and buy it, or a substantially similar one, within 30 days, any loss you incurred isn't tax-deductible.

EXPANDING YOUR BUSINESS IN 2022?

If you're ready to take your business to the next level, congratulations. In addition to logistical and operational plans, there are a few administrative tasks to tackle when growing your company and expanding into new states.

Typically, that involves registering as a foreign company with the new location's Secretary of State.

Also, check whether your existing insurance policies for things like business liability and automobiles will cover your operations in the new locale.

If expanding means hiring employees in the new state, you'll want to register with the Department of Revenue for employment tax purposes. And finally, workers' compensation insurance laws may be different, so make sure you secure coverage when it's required. Your tax professional can provide guidance you may need.

CLIENT PROFILE

Jerry recently sold his home in Michigan and bought a condo in Panama. He plans to live in Panama and make trips back to the U.S. to visit friends and family. Will he still need to file U.S. tax returns?

Because the U.S. taxes citizens on their worldwide income, Jerry will need to file a tax return regardless of where he lives. But he may be able to exclude some income if he's gone long enough.

Jerry may qualify for the foreign earned income exclusion (FEIE) if he is out of the country for at least 330 days during a 12-month period. This physical presence test doesn't require the 330 days to be consecutive, but he will need to keep track of the days he is in the U.S.—even if they are partial days.

The FEIE allows Jerry to exclude wages, commissions and professional fees earned while in Panama—even if working for an American company. But this doesn't include unearned income, such as dividends, interest, or capital gains.

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

KEEP YOUR BUSINESS SAFE FROM FRAUD

Sadly, fraudsters are continually looking for ways to make a quick buck at your company's expense, so make sure you're taking steps to protect your business from all types of threats.

LOOK INSIDE

Preventing fraud from the inside involves ensuring employees' duties are adequately segregated. Make sure that more than one person has responsibility for each process. And consider requiring vacations. That will give you a chance to complete an audit in an employee's absence to ensure everything is working as intended.

ONLINE AWARENESS

Outsiders can take control of your entire network, knocking you offline and locking you out of your files until you pay them a fee. Protect your company from cyber fraud by using secure and private internet connections. When employees travel, provide them with data hotspots, so they don't need to rely on public internet options. And keep all software, firewalls, and antivirus software updated to prevent hacks and ransom attacks.

ON-PREMISE

Protecting your office goes beyond the cybersphere. Having a secure entry system helps to keep unwanted visitors out. Consider limiting employees' access to sensitive areas. For example, allowing only IT managers access to the server room.

Take a look at how your sensitive documents are stored. Human resources and accounting should have locking file cabinets to secure private information and, ideally, you should have locking offices for those employees.

INSURE IT

No precaution is foolproof, and that's why having adequate insurance is a must. Business crime, identity theft, and cyber threat insurance may prove invaluable should your company become a victim.

You may be able to secure these policies as add-ons to your general liability policy, so speak with your insurance agent to ensure you have the right coverage for your company.

Q **After I file my taxes this year, how long do I need to keep my tax records?**

A The general rule is to keep your records for three years from the date you filed your original return. But there are exceptions. For example, if you claim a loss from worthless securities or bad debt, keep your information for seven years. And your state may have different expectations for retaining tax documents. Keep in mind you may need to keep some documents longer for non-tax purposes. For example, you may want to keep records related to purchasing your home, car or other insured assets for insurance purposes or to prove your basis in an asset.

YOU'RE SELLING YOUR BUSINESS?

Selling your business can be a bittersweet experience. While you may be excited for the future, it's the end of an era. Be sure you don't overlook these considerations.

STAY INSURED

You'll still need health insurance, which you'll likely have to pay for on your own. Also, review your disability and life insurance needs. Policies that your company used to pay for will now have to come out of your pocket.

TAX SAVINGS

Work with your tax professional to create a plan to minimize the taxes you'll owe from the sale. That could include making donations to your favorite charity, gifting money to children and grandchildren or setting up a donor-advised fund.

FREEDOM PLANNING

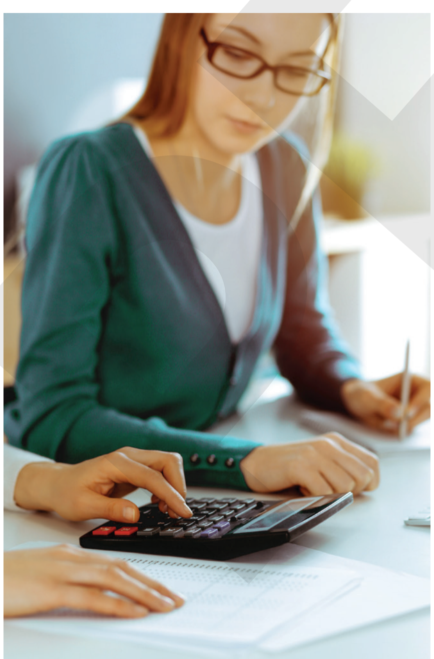
If you're retiring, planning for your new free time is just as important as the financial decisions you'll need to make. Without the routine of working, you may feel lost. Take ample time to prioritize how you want to fill your days to stave off boredom and loneliness. You may find that it takes a year or more to settle into a new routine.

Q **What's involved if I want to franchise my business?**

A Franchising your business can be expensive and time-consuming, so be sure you've done your homework to ensure you have a unique product with a proven track record of sales. Then you'll want to engage with an experienced attorney to help you create your franchise agreement and disclosures. Consider working with a franchise consultant to help develop operations manuals and marketing materials. And spend time choosing the new locations, whether that's staying in your home state, taking it national, or expanding into international markets.

PROS AND CONS OF FILING YOUR TAXES EARLY

Taxes aren't due until April, but there are some good reasons not to wait to file your tax return early.



AVOID LONG LINES

Getting your taxes ready early means you'll have less competition for getting an appointment with your tax professional. That means less stress for you and your preparer.

PREVENT FRAUD

Filing your return early gives crooks less time to submit a fraudulent return using your identity. Untangling identity theft issues with the IRS is stressful and time-consuming.

MONEY MATTERS

If you need to pay additional taxes, your tax payment is due by April 15. Filing early means you have time to plan how to pay your bill and avoid any last-minute surprises. And if you're expecting a refund, early filing generally means you'll get your money sooner.

WAITING GAME

Occasionally, there can be stumbling blocks that prevent you from filing early. For example, although companies have deadlines for providing tax forms like W-2s and 1099s, sometimes they send them late. Or perhaps they send them on time, but there's an error. So, if you receive a late or corrected form and you've already filed, you'll be forced to amend your return. Luckily, this is not a common occurrence.

ClientLine® SHORT BITS

❖ MATH ERRORS

The IRS had a record-setting year in 2021 for sending notices to taxpayers who made math errors on their returns. From January 1 to July 15, about nine million notices were sent out, compared to just over 600,000 for the same period in 2020. Most of the math errors were related to the stimulus payments provided by the pandemic financial relief legislation.

❖ TRAILBLAZING WOMEN

Starting this year and through 2025, the U.S. Mint will release five new quarter designs each year to recognize the accomplishments and contributions of trailblazing American women. The 2022 coins recognize the achievements of Maya Angelou, Dr. Sally Ride, Wilma Mankiller, Nina Otero-Warren, and Anna May Wong.

❖ TEACHING PERSONAL FINANCE

Ohio became the latest state to pass legislation requiring high school students to take a personal finance class before graduation. Beginning in the 2024-2025 school year, Ohio joins other states like Mississippi, North Carolina and Rhode Island with similar education requirements. Topics kids will learn include basic budgeting, opening a bank account and managing student loans.

❖ REMOTE WORK

According to a recent Gallup Poll, 91% of remote employees surveyed reported their desire to continue working from home, while over half support a hybrid at-home and at-office arrangement. And about 30% of workers said they would look for another job if their current employer eliminates remote work. Commute time coupled with wellbeing and flexibility were the top reasons workers mentioned for continuing remote working. And the majority of employees didn't believe company culture would be harmed without a physical office location.