

ClientLine®

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TAXES FOR THE NEWLY SELF-EMPLOYED

Before you take your first step into the world of entrepreneurship, there's a checklist of things you'll need to do to avoid tax problems while you're starting.

TAX ID

Depending on how your business is structured and whether or not you have employees, you may need a federal employer identification number. This unique nine-digit number works like a Social Security number for your company.

Businesses with employees need one. Sole proprietorships generally don't need one, but other corporate structures with more than one owner need one too. It's free, and you can apply online with the IRS.

ESTIMATES

Most self-employed taxpayers will need to make quarterly estimated tax payments. This might be a new concept for anyone that's had a W-2 job where tax was withheld from your paycheck.

Being self-employed means that you're responsible for paying quarterly tax payments. You must pay tax as you earn income, not at the end of the year in a lump payment. Doing that may cause you to incur penalties for failing to pay on time.

Your tax professional can help calculate how much you need to pay each quarter and help ensure that you

don't have a big tax bill next April because you grossly underpaid.

SELF-EMPLOYMENT TAX

If you've always been an employee, you might not be aware of the self-employment tax. This is a 15.3% tax most entrepreneurs pay on their company's earnings. It represents the employer and employee portion of Social Security and Medicare taxes. However, you'll receive a tax credit of 7.65% for the employer's share when you file your annual tax return.

There are ways to avoid paying self-employment tax on all of your business profits. One option is to have your company taxed as an S-Corp. But be careful, because S-Corps come with other administrative and legal requirements. It's best to speak with your tax professional to determine what business structure makes sense for you and your business.



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EMPLOYEE APPRECIATION

Positive reinforcement sets an example for everyone in your company, showing them the kind of work you value most. Recognition makes people feel good and motivates employees to keep up the good work. There are so many ways to recognize staff for a job well done.

HERE ARE SOME IDEAS:

- ❖ Host a team luncheon at a restaurant or a picnic in a park
- ❖ Present event tickets or a gift certificate
- ❖ Provide a night out that includes a babysitter
- ❖ Call workers into your office to thank them, or write a note
- ❖ Designate an unplanned casual dress day
- ❖ Sponsor a food or ice cream truck on campus
- ❖ Rejuvenate the break room to make it more inviting
- ❖ Hold a meeting in a coffee shop

CLIENT PROFILE

Eliza wants to invest some of her retirement assets in socially responsible companies. But she doesn't know where to start or how to analyze companies for their social and environmental responsibility.



Environmental, Social, and Governance (ESG) investing is a strategy that examines a company's sustainability and non-financial social stewardship. The best way to start is to discuss the idea with her financial professional, who can provide personalized guidance and help her to make informed decisions.

Perhaps she should consider what matters most to her. For example, some funds focus on natural resource preservation while others prioritize fair labor practices.

Interested, in digging deeper, Eliza can research companies with high ESG scores and examine corporate reports that follow the Global Reporting Initiative (GRI) framework for reliable information. Although there are no universal ESG standards, the GRI is the most commonly used.

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

WORKING FOR TIPS

Whether as an employee or an employer, you should know the laws governing tipped employment.

PAY RATE

Under federal law, employers must pay at least \$2.13 per hour, as long as the hourly wage combined with the tips received equal the federal minimum wage of \$7.25 per hour or more. If not, employers must make up the difference.

Keep in mind that many states require a higher hourly wage for tipped workers. In Oregon, it's \$12.75 per hour, and in Colorado, it's \$9.54 per hour.

COMMUNITY TIP POOL

Employees must retain all of their tips unless they participate in a valid tip pool or sharing agreement. Tip pooling is when the tips collected are put into a large "pool" and redistributed among a larger group of employees. An example is at a coffee shop where one employee may take orders, a few others make the drinks, and another busses and



cleans tables after customers leave. Tip pooling ensures all workers receive their fair share of the tips.

Tip sharing doesn't require an equal distribution of tips among employees. Usually, a distribution rate is set by the employer and includes employees who don't customarily receive tips like dishwashers, chefs, and cooks. Employers, managers, and supervisors are prohibited from keeping employees' tips, including those through a tip pool. Like pay rates, states have their own rules for tip pooling that may go beyond the federal requirements.

REPORTING

All cash tips are subject to Social Security, Medicare, and income tax. Employees are required to report monthly tip totals to the employer for tax reporting and withholding.

Employers must retain tip reports, withhold taxes on the hourly wage and tip income, and deposit the tax with the IRS. In addition, employers are also responsible for paying the employer's share of Social Security and Medicare taxes.

CONSIDER TIPPING SERVERS MORE

Servers in the U.S. earn below the minimum wage, with the best-paid waiting salary at \$28,280.

That is why your tip could make the difference between paying the bills on time or incurring a penalty or, worse, having utilities cut off for those who provide service to you.

Source: CreditCards.com



SALES TAX BASICS FOR SMALL BUSINESSES

Sales tax can be intimidating for entrepreneurs. Rules differ in each state, county and city, but some basics are universal.

WHAT'S TAXABLE

Generally, if you sell a tangible product, you'll be required to collect sales tax from buyers. But some states also impose sales tax on services.

PERMIT REQUIRED

If you're required to collect sales tax in your state, you'll need a sales tax permit. Once you receive the permit, the state will assign to you a filing due date and frequency, which is generally determined by your annual revenue and can be monthly, quarterly, or annually. Keep in mind if your company operates in more than one state, you may need to apply for multiple state sales tax permits.



COLLECTION

Be sure to collect tax on all sales, regardless of the source. You'll need to collect tax on sales in brick-and-mortar stores, online, or through Amazon's marketplace. And in most states, even if you had no sales for a period, you'll still need to file a sales tax report for the period or risk paying a fine or having your sales tax permit revoked.

APPEALING AN UNEXPECTED MEDICAL BILL

If you received a medical bill that you believe was sent to you in error or the amount is wrong, you can file an appeal with your insurance company.

START WITH THE EXPLANATION

Your insurance company should have provided an explanation of benefits that breaks out the cost of the service, how much they paid, and what's left for you to pay. Compare the amount they paid with your insurance documents to verify they agree.

IN NETWORK

A common error is for doctors or hospitals to send incorrect billing codes to the insurance company, resulting in a denial of a claim or paying for the procedure at lower out-of-network rates. If your provider



is in-network, ask them to rebill the insurance company with the correct information.

NO-CHARGE SERVICES

Under the Affordable Care Act, insurance companies must cover all costs of annual physical exams and other preventative care. But if your doctor orders additional tests, your insurer may deem them an unnecessary part of your physical exam. To avoid surprise bills, ask the providers to check with your insurance so you know what is covered.

Q

Do my volunteer hours at the local food pantry count as a charitable contribution?

A

Unfortunately, your good deed won't come with a tax break. Hours spent volunteering for a qualified charity aren't a tax deduction. But there is some good news. The miles you drive to get to and from the food pantry are tax-deductible. For 2022, you can deduct 14 cents per mile if you itemize deductions. And if you make donations of food or other staple items to the pantry, those costs are deductible too.

ESG INVESTING TRENDS FROM 2020

Approximately one-third of all U.S. assets – \$17.1 trillion – under professional management are placed in sustainable investments.

TOP CRITERIA ESG MONEY MANAGERS CONSIDER



CLIMATE CHANGE

\$4.18 trillion
39% increase since 2018



ANTI-CORRUPTION

\$2.44 trillion
10% increase since 2018



NATURAL RESOURCES & AGRICULTURE

\$2.39 trillion
66% increase since 2018



EXECUTIVE PAY

\$2.22 trillion
122% increase since 2018

Sources: <https://www.ussif.org//Files/Trends/2020%20Trends%20Report%20Info%20Graphic%20-%20Overview.pdf>
<https://www.ussif.org/files/US%20SIF%20Trends%20Report%202020%20Executive%20Summary.pdf>

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