ClientLine®

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CONSIDER STATE TAXES BEFORE YOU MOVE

Karen Petrucco
Account Manager

LTM Client Marketing
45 Prospet Ave
Albany, NY 12206

Tel: 518-870-1082
Toll Free: 800-243-5334 ext.505
Fax: 800-720-0780

kpetrucco@ltmclientmarketing.com
www.ltmclientmarketing.com

Relocating to a different state means state tax changes. Simply because a state has low (or no) income tax doesn't necessarily mean it's a low tax state. A state needs funds to survive and while they may not charge income tax, there are other ways to collect taxes.

SALES TAX

Sales tax can vary by type of product or service purchased. And the rate can vary depending on where you make the purchase.

Currently, there are five states without a state sales tax. In the other 45, a state-wide sales tax is collected on taxable goods and services. For example, Florida has a 6% state-wide tax rate, and Colorado's is 2.9%.

On top of the state sales tax, local counties, cities, or municipalities may collect their own sales tax. If you're in Miami, you'll pay an additional 1% sales tax to Miami-Dade County, and in Denver, you'll pay an extra 4.81% on most retail purchases.

Along with different rates, most states tax items differently. While some basic goods like groceries may be exempt from sales tax, other things like alcohol and sugary beverages may incur excise taxes in addition to the state and local sales taxes.

REAL ESTATE TAX

One of the primary revenue sources for local governments is real estate tax, where the tax is based on the value of

the owned property. And if you've bought real estate recently, you may notice a hike in property tax. That's because of the higher prices of housing. Your locality will likely adjust appraisal values and taxes according to the higher value.

OTHER TAXES

Although sales and real estate taxes will be the two most significant taxes to consider, there are a few others to consider. Motor vehicle taxes, those fees you pay to register your car, boat, or RV each year, vary from state to state. If you are working in your new locale, be aware that some cities have occupational privilege taxes you'll pay, in addition to any state income tax. And some states have an estate or inheritance tax—Maryland has both.

RETIREMENT PLAN AUDITS

If your company's retirement plan has 100 or more eligible participants at the beginning of the plan year, you'll generally need to have it audited by a qualified independent accountant each year.

A plan audit typically includes reviewing plan documents to verify they comply with IRS and Department of Labor rules, examining employee contributions to ensure money was remitted timely, confirming distributions and rollovers were paid out correctly, sampling specific participant's transactions for plan compliance, and determining the accuracy of the information reported.

Keeping track of plan-related documents throughout the year—and for smaller companies experiencing steady growth, monitoring the number of active participants—are the simplest ways to prepare for an audit.

CLIENT PROFILE

Jaime is starting school to become an electrician. He has some savings, but he's worried about how he'll pay for tuition without taking out loans.

Jaime has a few options to help pay for his schooling. Along with his savings, if his school is eligible for federal student aid, he should complete the Free Application for Student Aid (FAFSA). This application will determine what federal educational aid he qualifies for, like grants and scholarships.

If someone could fund a 529 college saving plan for Jaime, that money would be eligible to pay trade school tuition and fees. It can also be used for purchasing required textbooks and computer software. But he's limited to withdrawing a maximum of $10,000 per year tax-free.

Jaime should search for vocational scholarships. Many schools and industry-specific companies and trade unions sponsor scholarships to attract recruits to the field. Scholarships are typically based on merit, including academics and community involvement.

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

THE QBI DEDUCTION AND REAL ESTATE INVESTMENTS

The qualified business income (QBI) deduction was born from the Tax Cuts and Jobs Act of 2017 and offers tax savings to qualified businesses. Keep reading to learn how this deduction applies to real estate investments.

TRADE OR BUSINESS

To qualify for the QBI deduction, your real estate activity must be a trade or business. And in the eyes of the IRS, that means it must have a profit motive and require continuous activity. Other factors to consider include:

- Type of property rented (commercial vs. residential)
- Number of properties rented
- Owner's (or their agent's) day-to-day involvement
- Types and significance of ancillary services provided under the lease
- Terms of the lease (short-term vs. long-term)

SAFE HARBORS

Even if your real estate investment activity doesn't meet the trade or business requirements, some safe harbor provisions could allow you to qualify for the QBI deduction including:

- Maintaining separate books and records for real estate activities
- Providing at least 250 hours annually for rental services
- Retain records of services completed

DEDUCTION AMOUNT

The QBI deduction aims to bring the tax rate for pass-through entities, like sole proprietorships, partnerships, and S-corporations, in line with the flat 21% C-corporate tax rate.

The deduction is 20% of qualified business income for qualifying businesses, which is subject to multiple limitations, including a phase-out based on income.

For 2022, the deduction is reduced when taxable income exceeds $170,050 for individuals and head of households or $340,100 for married filing jointly (MFJ) with a complete phase-out at $220,050 for individuals and $440,100 for MFJ.

Consult your tax professional to learn how the QBI deduction may apply to your situation.

HIGHER EDUCATION COSTS

Below are average in-state tuition and fees full-time undergraduate students paid during the 2021-2022 school year.

FOUR-YEAR SCHOOLS

Public universities: $10,740

Private nonprofit universities: $38,070

TWO-YEAR SCHOOLS

Public, in-district: $3,800

Source: https://research.collegeboard.org/media/pdf/trends-college-pricing-student-aid-2021.pdf

HOW TO CHANGE A BUSINESS NAME

Has your business outgrown its name? Or perhaps you've purchased a company and want to rebrand its product line. Fortunately, changing your company's name is straightforward.

SEARCH

After you settle on a new name, complete a business name search with the Secretary of State where you do business. You'll want to make sure this name is available and that it follows the state's naming rules. You may also want to verify that the domain name is available, even if you don't plan to have a website right away. Buying the domain name will ensure another business can't use it.

NOTIFY

When you confirm the company name is available in your state, you need to file an amendment certificate with your Secretary of State to notify the state of the name change.

You'll also need to notify the IRS for federal tax purposes, and that might mean applying for a new federal employer identification number. And don't forget to update any business licenses or permits, bank accounts, and company agreements or bylaws.

Q **How do I change my company's fiscal year-end?**

A Transferring your business to a fiscal year from a calendar year is a significant step and should be done only if there is a strong business purpose. It will complicate tax compliance because some reporting deadlines will shift while others, like Forms 1099 and W-2, will remain on a calendar year.

Changing your year-end date generally requires approval from the IRS by submitting Form 1128, so you'll want to get your tax professional involved. However, if you're looking to change your fiscal year-end strictly for a financial presentation viewpoint, remember you can always present your company financials using any period you like without changing your tax filing requirements.

INTEREST RATES & BONDS

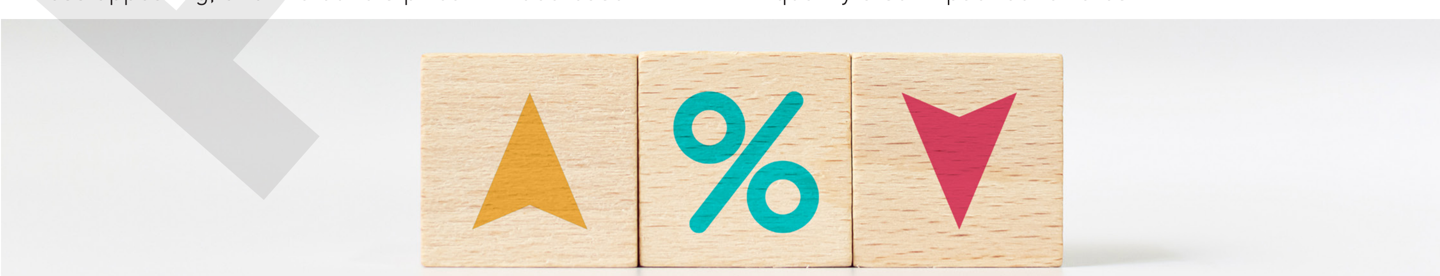
A fundamental principle of bond investing is that market interest rates and bond prices generally move in opposite directions. When interest rates rise, the cost of bonds typically decreases and the bond's yield (how much you'll earn) usually increases. This is true for government and corporate bonds.

INVERSE RELATIONSHIP

A bond's coupon rate (e.g., interest rate) is fixed when issued. But when interest rates change, the coupon rate becomes more or less attractive depending on how interest rates move. When a bond's coupon rate is lower than the prevailing interest rate, investors will likely find it less appealing, and the bond's price will decrease.

For example, if a corporate bond has a coupon rate of 3%, but prevailing interest rates are 4%, an investor will pay the amount that generates more than a 4% yield. So, a $1,000 face value bond might sell for $925.

Remember that time to maturity and the issuer's credit quality also impact bond rates.



ARE YOU SAVING ENOUGH FOR RETIREMENT?

Here are the average retirement account balances by ages, according to a Survey of Consumer Finances.* This chart clearly demonstrates that most Americans are not saving nearly enough for retirement. Fortunately, you do not have to be average. Working with your financial professional is your best chance of developing a realistic savings strategy that works for you.

AGE GROUP AND THEIR AVERAGE RETIREMENT SAVINGS

Under 35: $13,000

35-44: $60,000

45-54: $100,000

55-64: $134,000

65-74: $164,000

75 and up: $83,000

*https://www.federalreserve.gov/econres/scf/dataviz/scf/table/#series:Retirement_Accounts;demographic:agecl;population:all;units:median