ClientLine®

November 2022

Karen Petrucco
Account Manager

LTM Client Marketing
45 Prospect 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

SOME TIMELY MOVES FOR YOUR BUSINESS

Just like your car, your business needs regular maintenance. Doing some year-end maintenance on your company's finances can help ease workloads in the next few months.

HARVEST TIME

As with your personal investment portfolio, if your company converted extra cash into investments, it likely saw gains in the first part of the year. But with inflation and increasing interest rates, investment returns have declined in the last several months.

Now may be the time to harvest some losses to offset your gains. Review your company's investment portfolio with your financial professional to see if liquidating some assets makes sense.

PLAY CATCH UP

Getting your company ready for year-end means having your financial records up to date. Focus on finalizing your third-quarter financial statements if they are still lingering. Review your payroll records to ensure all payroll taxes have been paid, and all federal and state payroll tax returns have been filed.

Also, see if there have been any late or missed payments to vendors? Are there any long-overdue invoices unpaid from customers? Are business expenses being tracked and recorded correctly? Are employees and independent contractors correctly classified?

OUT WITH THE OLD

Unfortunately, some inventory items don't sell, and some debts go bad. While neither is ideal, these old items are tax deductible.

Old inventory, or inventory that can no longer be sold, is deductible as an expense. Since inventory only gets expensed when it's sold, you can liquidate the items and deduct what you originally paid for them.

The same concept applies to uncollected debt, though what constitutes an uncollectable debt depends on your business. If you made an extensive effort to collect but have been unsuccessful, you generally can write it off. In either instance, you'll need proper records to prove both situations. Consult your tax professional.

INCOME FROM PAYPAL AND OTHER CASH APPS

If you use PayPal or other electronic payment processors to collect payments from your customers, you'll need to include that income on your tax return. Even though you might not receive a Form 1099-K from PayPal, Airbnb, or Venmo, it's still considered taxable income according to the IRS. If you have not received a 1099-K before, it's more likely you will for 2022 due to the new reporting requirements. (See page four for details).

If your customer paid you via PayPal you could receive a Form 1099-NEC/1099-MISC from your customer and a Form 1099-K from PayPal, resulting in a double reporting of income. So, keep good financial records to support the amount you invoiced your clients. Otherwise, the IRS may conclude that you've underreported your income.

CLIENT PROFILE

Ann's planning to host a company holiday party for her employees and select clients. How much of the costs can she deduct as a business expense?

Holiday parties for employees' benefit are generally 100% tax deductible. Costs to entertain guests other than employees must be directly related to the active conduct of business to claim the same tax benefits.

If inviting clients is an act of goodwill and Ann has no intent to talk about business with them, the expenses for clients will likely be 50% deductible.

Ann will need to allocate her party expenses between employees and clients. Unless there are specifically identifiable expenses for clients – like providing them with goodie bags or gift cards as a token of appreciation, she can do a quick allocation. For example, if there are 100 guests and 60 of them are employees and their spouses, 60% of the costs will be 100% deductible, and she can deduct half of the remaining 40%.

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

CONSIDER A GRAT

Grantor Retained Annuity Trusts (GRATs) represent an opportunity to transfer appreciating assets to the next generation with little to no gift or estate tax consequences.

WHAT'S A GRAT?

A GRAT is a trust created so individuals and families can move wealth to heirs while using little, if any, of their lifetime federal gift and estate tax exclusion. An individual would set up an irrevocable trust and transfer assets into it. In return, the grantor would receive an annuity payment (at least annually) for a certain number of years.

GO FOR ZERO

The most common structure for a GRAT is a "zeroed out" trust. Here, the initial transfer value plus some interest (set monthly by the IRS) would be returned to the grantor over the term of the trust. And at the end of the trust period, remaining funds would be passed on to heirs, either outright or in a different trust.

With a zeroed-out GRAT, since the grantor retains an annuity equal to what they contribute to the GRAT, the value of the remainder interest (the amount left over after the GRAT term) is zero. This is what the grantor gives to the beneficiaries. Since this is a zero-value gift from the IRS's perspective, it doesn't use any portion of the grantor's lifetime exemption from federal gift tax.

So, suppose individuals or families own assets that they expect to appreciate, but they don't necessarily want to gift them outright. In that case, it may make sense to shift the potential future growth of those assets to heirs using a GRAT. Also, GRATs tend to be particularly effective in low-interest-rate environments.

The financial downside to a GRAT is often limited to the transaction costs of creating it (e.g., legal, accounting and, if funding it with illiquid assets, appraisal fees). Speak with your tax professional to learn if a GRAT makes sense for your financial situation.

Consumers spent

$1.17 trillion on food

away from home in 2021

Source: USDA.GOV

CONDUCT A YEAR-END FINANCIAL TUNE UP

As 2022 draws to a close, reflecting on the year's financial activity is a good way to prepare for a financially successful new year.

EMERGENCY FUND

If you had to tap your emergency fund to cover unexpected expenses this year, plan to replenish it next year. Aim to have three to six months of living expenses on hand in an interest-bearing cash account, so you can access it quickly when needed.

EVALUATE THE FUTURE

As well as looking back, consider future trends or expenses that will be new in 2023. You may have childcare expenses or aging parents to care for in the new year. Include the higher costs of gas, groceries and other necessities. Adjust your budget to account for these changes.

REVIEW INSURANCE

Consider getting a few quotes to compare your current homeowner's insurance rates. And do the same for your auto insurance. If you have a flexible spending account, now's a good time to find out if it allows you to carry over a balance to 2023. If it doesn't, use the money before December 31.

Q **What does renter's insurance cover?**

A Typically, renter's insurance covers damage to the things inside your home, not the structure itself. Losses from theft, fire, lightning, and vandalism are usually covered, while flooding and earthquake damages aren't. Most policies will cover damage to your personal belongings, hotel stays if you're required to temporarily relocate while your home is being repaired, and liability if you cause damage to other's property or if someone is injured in your home.

Renter's insurance is inexpensive compared to homeowner's insurance. And you may be able to add identity theft and pet damage coverage to your policy for an additional fee.

AUTOMATE TO SAVE

Automation may seem daunting, but the results can be a game changer.

SET IT AND FORGET

Repetitive tasks are ripe for automation. Tracking and responding to incoming leads, using online scheduling software, and processing payroll can free up your time when automated. Working on your business, not in it, will likely increase your profitability and your productivity.

WHERE TO START

Consider your top pain points in your business. Where are the errors? Where is the repetition? Where are the failure points? Are there ways you could automate the process to help you get your time back? Be sure that whatever automation tool you plan to use makes your life easier, not more complicated. And start small and build as you learn.

MEASURE IT

Automation involves time and money, so you'll want to make sure it's providing benefits. Set targets so you can gauge success. Define your goals on what you'll do with the free time automation gives you. And don't forget to track your results so you can refine your processes.

FORM 1099-K GETS AN OVERHAUL

If you received more than $600 from various online payment processors, you'll receive the updated Form 1099-K, *Payment Card and Third-Party Network Transactions.*

WHAT'S CHANGED?

Previously, when a company collected debit and credit card payments from customers, the card processor issued Form 1099-K that showed the gross amount of cash it provided to the business.

Now, more Americans will receive Form 1099-K. Beginning in tax year 2022, individuals, partnerships, LLCs, and corporations that earn more than $600 annually from third-party settlement organizations (e.g., PayPal) or electronic payment facilitators (e.g., Shopify or Xero which helps companies invoice and collect from customers) will receive a Form 1099-K.

WHO'S IMPACTED?

Some examples of who may be impacted by these changes if they meet the $600 reporting threshold include:

- ❖ Homeowners renting out their homes on marketplaces like Airbnb
- ❖ Delivery drivers working for food delivery apps like Uber Eats or Grubhub
- ❖ Gig freelance workers offering their services on sites like Upwork
- ❖ Online retailers selling goods on platforms like eBay or Etsy