

ClientLine®

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TAX DEDUCTIBLE START-UP COSTS

You'll incur numerous costs to get your new business venture off the ground. But are all of them tax deductible? You may be surprised.

GETTING STARTED

Tax deductible business start-up costs include those incurred while creating an active trade or business and/or investigating the creation or acquisition of an active trade or business.

Start-up cost examples include:

- ❖ Market surveys
- ❖ Advertising for the opening of a business
- ❖ Deposits on utilities or leased property
- ❖ Website development

There are also organizational costs. These include expenses for organizing your company, state incorporation fees, and attorney fees to help with any of these tasks.

IRS WEIGHS IN

It's important to separate these two expense groups. Generally, the IRS considers business start-up costs as capital expenses because they are used for a long time, rather than within the first year of doing business. So, you can't designate all these costs as expenses to your business in the first year.



Business start-up costs are intangible assets (no physical form), so they must be amortized (spread out over 15 years, for example), beginning with the year your business begins.

THE FIRST YEAR IS UNIQUE

You can elect to deduct up to \$5,000 of business start-up costs and \$5,000 of organizational costs in the first year you are in business. But each \$5,000 deduction is reduced dollar-for-dollar by the amount that your total start-up or organizational costs exceed \$50,000. For example, if you incurred \$53,000 of start-up or organizational costs in the first year, you could only deduct \$2,000 in the first year (\$5,000 - \$3,000).

Keep organized records of all expenses you pay while starting your business for your tax professional.



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IDENTITY PROTECTION PIN (IP) FROM THE IRS

An IP PIN is a six-digit number that help prevent someone from filing a tax return using your Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN). The IP PIN is known only to you and the IRS and helps verify your identity when you file your tax return.

The IP PIN is valid for one year, so each January, you'll need a newly-generated IP PIN. Most taxpayers can obtain an IP PIN by applying at [IRS.gov/getanippin](https://www.irs.gov/getanippin). You must pass the identity proofing requirements. But if you can't successfully validate your identity through online means, you may apply with Form 15227.

After you're assigned an IP PIN, it must be entered accurately on electronic and paper tax returns to avoid rejection and delays.

CLIENT PROFILE

Valerie needs summer help at her kayak rental store in a busy beach town. But she doesn't foresee needing these additional workers after the summer vacation crowds return home. Should she hire employees or use independent contractors for these few months?



Although Valerie may prefer to use contractors for her short-term staffing needs to avoid paying payroll taxes, she'll likely be constrained to hiring employees. That's because the IRS has clear rules defining employees and contractors.

Generally, an employee will work under Valerie's supervision, direction and set hours. Further, her seasonal workers will be essential to running the business by taking care of customers.

Contractors tend to be professionals who don't require supervision to do their work (think of computer consultants or electricians). And contractors can set their own schedules and control how they are paid, unlike employees who are paid according to the company's pay schedule.

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

WHEN SHOULD YOU START SOCIAL SECURITY BENEFITS?

Before deciding to collect Social Security benefits, consider these tips to help you make an informed decision.

TIMING MATTERS

If you plan to continue working while receiving benefits, there are limits on how much you can earn each year between age 62 and full retirement age and still collect all your benefits. However, once you reach full retirement age, your earnings do not affect your benefits, but they may be taxable as income.

And if you don't need the income now, you may decide to wait beyond full retirement age to receive additional retirement credits. Or you can choose early retirement and invest your benefits elsewhere.

HEALTH INSURANCE

If you stop working, not only will you lose your paycheck, but you may also lose employer-provided health insurance. Although exceptions exist, most people will not be covered by Medicare until they reach age 65.

Your employer should be able to tell you if you will have health insurance benefits after you retire or if you are eligible for temporary continuation of health coverage. If your spouse is employed, you may be able to switch to their company's health insurance.

ADDITIONAL BENEFITS

If you qualify for benefits as a widow, widower, or surviving divorced

spouse, you may choose to apply for survivor's benefits now and delay your retirement benefit until later.

If you delay receiving your retirement benefit until your full retirement age or later, your retirement benefit will be larger.



EXPECTATIONS

Consider your family history and lifestyle when thinking about your life expectancy. You may need extra money in later years if you come from a family with long life expectancies. This is particularly important as you could potentially outlive your retirement savings, especially any investments with limits on how long they are paid.

Your life expectancy affects your retirement planning decisions. Knowing this helps you determine whether you should start receiving reduced benefits at age 62 or wait until age 70 to receive a higher payment.

PAYROLL TAXES PAID BY EMPLOYER

Social Security	6.2%
Medicare	1.45%
State Unemployment Insurance	Varies by state and industry
Federal Unemployment Insurance	6%

LEGAL DOCUMENTS MOST AMERICANS NEED

These documents will give your family guidance and comfort when they need it most.

POWERS

An advance directive or healthcare power of attorney is a legal document that provides loved ones and medical professionals a road map for your health care preferences should you ever be unable to make those decisions yourself. Appoint someone you trust to follow your wishes and give a copy to your hospital records department.

Similarly, a financial power of attorney gives someone you choose the authority to handle your finances when you are not able to do so yourself. Appoint a capable and responsible individual you trust and share your wishes with that person.

TRUST

A trust spares your heirs from the inconvenience and cost of probate. Instead, it allows for the rapid and private transfer of assets to your heirs.



WILL

A will is subject to probate, (reviewed by the court), which is public, and costs money and time. Consider attaching a list itemizing who is to receive any personal items not contained in your trust.

Q

Is a gym membership a medical expense that can be paid by an HSA or FSA?

A

Yes, but only if the membership was purchased for the sole purpose of affecting a structure or function of the body (such as a prescribed plan for physical therapy to treat an injury) or the sole purpose of treating a specific disease diagnosed by a physician (such as obesity, hypertension, or heart disease).

Otherwise, the cost of a gym membership is for the individual's general health and is not a medical expense.

LONG-TERM DISABILITY INSURANCE

Do you ever think about what life would be like if you could no longer earn a living? It happens more than you may realize. Sadly, 25% of Americans will become disabled before retirement age. Are you insured?

UNDERSTAND YOUR COVERAGE

You may have a long-term disability insurance policy as part of your benefits package at work. Because disability benefits vary by your policy and what type of disability you have, you'll want to read the policy carefully.

Be sure that you understand what type of illness or injury is covered. For example, there are two types of disability insurance policies: Own Occupation and Any Occupation. An Own Occupation policy will pay benefits if you are unable to work in

the job for which you've been trained. Whereas, an Any Occupation policy will only pay benefits if you cannot work in any type of job for which you are reasonably qualified.

Also, policies generally have a waiting period before benefits are paid, so you'll want to know what to expect.

Check to see what percentage of your wages you'll receive—usually 60%, but some pay up to 80%—and how long you'd be able to receive

benefits. Some policies have a time limit while others pay until retirement age. Keep in mind that long-term disability benefits are generally considered to be taxable income.

Once you fully understand your coverage, you'll need to make sure that the benefit amount would be enough for you and your family to get by. If not, you may want to consider purchasing an individual policy, too, which follows you if you leave your employer.

CREDIT SCORES

While there's more than one credit scoring model, most credit score ranges are similar to the following:
800 to 850: Excellent; 740 to 799: Very good; 670 to 739: Good; 580 to 669: Fair; 300 to 579: Poor.
How do you compare?

Average Credit Score by Generation	2021	2022
Silent Generation (77+)	760	760
Baby Boomers (58-76)	740	742
Generation X (42-57)	705	706
Millennials (26-41)	686	687
Generation Z	679	679

Source: Experian data from September of each year; ages as of 2022

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