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Online Advisor – February 2021

Upcoming dates:

February 14

- Valentine's Day

February 15

- Presidents' Day

Reminders

- Organize filing records (1099s, 1098s, W-2s, etc.)
- Schedule tax appointment for drop off or meeting
- Begin tax planning for 2021

As the tax filing season gets underway, now is a great time to review some tips to help ensure your tax return is processed without a delay. Also included are reminders of some surprising tax situations this year because of the pandemic. For small businesses there are some organizational hints that seem to work and a thoughtful article for all of us to consider about how we tend to undervalue the worth of our personal identities.

Please call if you would like to discuss how this information could impact your situation. If you know someone who can benefit from this newsletter, feel free to send it to them.

4 Ways to Make Sure Your Tax Return Doesn't Get Stuck

Here are four ways to make sure the preparation of your tax return keeps humming along until it gets filed.

1. **Keep tax documents in one place.** Missing items are one of the biggest reasons filing a tax return gets delayed! Find a place in your home and put all tax documents in this one place as you receive them. Common missing items this year will include the new 1099-NEC for any taxpayers that are contractors, consultants or part of the gig economy.



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2. **Organize documents by type.** Every tax professional has a story of someone bringing their documents to them in a shoebox or storage container. All this does is increase the amount of time it takes to prepare your return, so it's best to sort your documents in tax return order. Pull out last year's tax return and create folders for each section including income, business/rental information, adjustments to income, itemized deductions, tax credit information and a not-sure bucket.
3. **Create list of special events.** You receive a Form W-2 from your employer every year. You may get a 1099-INT from your bank if you earn interest income on your deposit accounts. But selling a home usually doesn't happen every year. Retiring from a 40-year job doesn't happen every year. Sending a child to college also doesn't happen every year (although it might seem like it does!). If you don't write down these unusual events as they happen, you might forget them when your tax return is being prepared. And you may not remember until the moment your return is about to be filed. This is sure to cause delays.
4. **Don't forget your signature!** You may be surprised to learn that even if you electronically file your tax return, you still must sign Form 8879, which authorizes the e-filing of your return. So whether it's a traditionally-filed paper tax return or one filed electronically, a signature is required.

These are four of the more common reasons why the preparation of your tax return may get delayed. Be prepared and file your return without a hitch!

Be Prepared For These Pandemic-Related Tax Surprises

Don't get shocked by a high tax bill! Be prepared for these pandemic-related tax surprises when you file your 2020 tax return.

- **Taxes on unemployment income.** If you received unemployment benefits in 2020, you need to report these benefits on your tax return as taxable income. Check to see if either federal or state taxes were withheld from unemployment payments you received. If taxes were not withheld, you may need to write a check to the IRS when you file your tax return.

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- **Taxes from side jobs.** Did you pick up a part-time gig to make ends meet? Payments received for performing these jobs may not have had your taxes withheld. If this is the case, you'll need to pay your taxes directly to the IRS on April 15.
- **Unusual profit-and-loss.** If you run a business that was hit by the pandemic, you may find your estimated tax payments were either overpaid or underpaid compared to normal. Now that 2020 is in the books, run a quick projection to ensure you are not surprised with an unexpected tax bill when you file your tax return.
- **Underpayment penalty.** If you did not have proper tax withholdings from your paycheck or your estimated tax payments weren't enough, you could be subject to an underpayment penalty. While it's too late to avoid a penalty on your 2020 tax return, the solution in the future is to make high enough estimated tax payments each quarter in 2021 or have the appropriate amount withheld from your 2021 paychecks.
- **A chance to claim missing stimulus payments. (A good surprise!)** If any of your stimulus payments were for less than what you should have received, you can get money for the difference as a tax credit when you file your 2020 tax return.

Please use these examples to prepare yourself for a potential tax surprise during the uncertainty caused by the ongoing pandemic.

Organized Business Records Save Time and Money

Here are some suggestions to help you master the art of documenting and organizing your business now and in the future.

- **Document policies and procedures.** Write down daily responsibilities, skills needed to complete tasks related to these responsibilities, and the location of all paper and electronic files. Appoint and cross-train backup staff to ensure these daily tasks are done.
- **Document your succession plan.** It may not be for another 10 or 20 years, but documenting your succession plan is critical for both you as the owner and for your employees. Consider how much longer

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you plan on owning the business and who you have in mind to take over after you leave. If you currently don't have a successor in mind, document your plan to either train or find this person(s).

- **Document your tax planning strategy.** Be aware of possible tax incentives, such as credits for hiring certain workers and accelerated depreciation available for acquiring business assets. For example, for asset purchases, retain receipts and record the purchase details. These details include the type of equipment, the acquisition date, the amount of the purchase, the date you began using the equipment, and a schedule of related set-up costs.
- **Organize your daily documents.** Organize your desk by shredding documents with sensitive information and scanning older papers into computer files. The most efficient method is to scan, file, and shred as soon as you are finished with a document. If you don't have time, consider assigning document organization to specific employees and making it a task to be completed on a daily basis.

You're busy, and you may feel that organizing your records will take more time than you have available. But spend a minute and consider how using these organizational tips may save you not only time, but money as well.

Your Identity is NOT Your Own!

How companies use your identity and what you can do to protect it.

One of the most valuable things you own is YOU. Your identity includes the basics - where you live, your age, and your gender. But it also includes your interests, who you know, and what you buy. So, do you know who has your identity? Here's the life cycle of your identity and what to do to protect it.

It gets collected. Think about the organizations that legally collect information about your identity – your employer, government entities, insurance companies, banks, credit reporting agencies, and non-profit organizations. And then add those companies you give your identity to freely - like Google, Facebook, LinkedIn, Twitter, and any other website or social media platform you visit.

It gets stored. Once your identity gets collected, it then needs to be stored somewhere. Storage is most often on servers or locally on a computer or mobile device. This is one of the core concerns with Tik-Tok, a Chinese-

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originated short video service. The concern is that a foreign entity will have stored U.S. citizen's interests and behaviors that can help identify potential targets that can be manipulated.

It gets sold. Once information related to your identity and interests are collected, most organizations then sell it to other companies. Not only is information about your identity sometimes collected without your knowledge, this information is then monetized. Your viewing behavior can also be actively manipulated by the sites you view. So if you read articles about cats, you are going to get a lot more articles about cats and get ads that relate to cat-lover behavior. This is often so subtle, you do not realize it is happening.

It gets accessed. If your information is considered a public record, anybody can see it. Business licenses, property tax records and real estate ownership are just a few examples of personal information that anyone can access.

It gets stolen. Identity thieves are always looking for ways to access your information. Thieves either hack one of the organizations that collects your confidential information or find a way to trick you into giving them your information, with techniques such as phishing emails.

What you can do

- ***Opt-out of providing personal information.*** The best place to start with protecting your identity is knowing who has access to it and asking if they really need it. Consider opting out of providing information if possible.
- ***Be vigilant with the data you possess.*** While you can't control how secure an insurance company's servers are, you can control how secure you handle the information and documents you possess. Be on the lookout for phishing emails, verify requests for your information and don't forget about getting rid of documents the old-fashioned way with a shredder.
- ***Deliberately monetize your identity.*** Stop giving away your identity without a thought. Here's an idea. Consider you are worth a million dollars. Then see what these services are paying you for your information and how they are using it. If this little exercise gets you to pause before signing up for a new service, then the exercise is worth it!

Protect Your Tax Return With This Secret Weapon!

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The Problem

You hang up the phone with a huge smile on your face. You just learned that you're getting a pretty sizeable tax refund this year. Now all you need to do is kick back and wait a week or two for the IRS to wire the money into your bank account.

This good news, however, is unfortunately short lived. The very next day you get another phone call.

"I'm sorry to tell you this, but someone else has already used your Social Security number to file a tax return."

You're told that you'll still be able to eventually get your nice, big tax refund, but it may be several months before you see the money. You first need to work with the IRS to resolve your case of identity theft.

The Solution

There's a secret weapon you can now use to protect your tax return – an Identity Protection PIN (IP PIN).

Beginning this tax season, all taxpayers who can verify their identities are eligible to obtain an IP PIN. An IP PIN is a 6-digit PIN that offers additional protections when filing your tax return. This one-time-use number is sent to you by the IRS and must be entered on your tax return along with your Social Security number. Since the IP PIN is a one-time-use number, you will receive a new IP PIN number each year from the IRS.

If someone tries to fraudulently file a tax return using your Social Security number, they will be unable to do so without this IP PIN.

What You Need to Do

- **How to get an IP PIN.** To obtain an IP PIN, click here to visit the IRS's Get an IP PIN tool to opt into the IP PIN program.
- **If your identity has already been stolen.** If someone uses your Social Security number to fraudulently file a tax return, ask for help to find out next steps for getting your identity fraud case resolved with the IRS.
- **Once in, tough to get out...for now.** As this is the first year the IRS is making the IP PIN program available for anyone who wishes to use one, they are not ready to let you opt out once you agree to participate. They anticipate adding the opt-out feature in the near future.

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Hiring Family Members - What You Need to Know!

Many business owners hire their children, their spouse, or other family members to work in their business. Sometimes this works out well. Other times it causes problems. Let's look at the pros and cons of putting family members on your payroll.

Hiring your children

Hiring your kids for a summer or part-time job usually has more tax advantages and fewer drawbacks than hiring other relatives. The financial advantage is that if you're paying your child to do useful work, the business gets a tax deduction for the wages paid. Your child will probably pay little or no income tax, and the after-tax wages stays in the family.

Follow certain steps to make sure the wages are fully deductible. The child must be doing a real job that helps the business, and the wages must be reasonable for the work performed. Keep detailed records of hours worked and pay salary regularly, preferably on the same schedule as other employees. In other words, treat your child just like any regular employee.

In addition, depending on how your business is organized and the age of your child, you may be able to avoid paying Social Security, Medicare, and unemployment on their wages. To qualify, you must be a sole proprietor or a husband-wife eligible partnership and your child must be under the age of 18.

Hiring your spouse or other relatives

An advantage to hiring your spouse or other relatives is that you have an employee whom you know well, and who may be more motivated or more flexible than a non-family member. And in many family-owned businesses, it's a powerful way to train the next generation who will take over leadership.

That same familiarity can bring disadvantages, however.

Few families are without some internal or intergenerational conflict, and that can be disastrous if it spills over into the workplace. You must also consider the effect on other employees. Any sign of favoritism or unequal treatment can cause resentment and ruin the motivation of other employees.

Be cautious moving forward

There are plenty of businesses where hiring family members has worked out just fine, but other businesses where it didn't work out.

So think long and hard before you bring family members into the business. Talk to them and to your key employees beforehand so everyone understands and is comfortable with their roles in the company.

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