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Online Advisor – February 2023

Upcoming dates:

February 14

- Valentine's Day

February 20

- Presidents' Day

Reminders

- Organize filing records (1099s, 1098s, W-2s, etc.)
- Schedule tax appointment for drop off or meeting
- Begin tax planning for 2023

Now that tax documents have started arriving in your inbox and mailbox, it's easy to set them off to the side to worry about later. There may be some benefit, however, to filing your tax return as soon as you can. In this month's newsletter, read about several reasons why you should consider filing your return early.

There are also tips to help make sure the preparation of your tax return doesn't get stuck, and the keys to success if you're an independent contractor.

Also read about 3 rules to help jumpstart your savings.

As always, feel free to reach out with any question or comments.

Why You Should File Your Tax Return Early

Tax filing season officially began on Monday, January 23rd. Not many people file that early, but for some taxpayers it makes sense to do so. Here are common reasons to consider trying to be at the head of the line:



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- **You want to avoid identity theft.** One of the more popular scams by identity thieves is to impersonate someone, file a tax return on their behalf and swipe their refund check. But once you've filed your tax return, the window of opportunity for identity thieves closes. If you've had problems with your identity being stolen in the past, or your information has been compromised, consider filing as early as you can.
- **You want to avoid a dependent dispute.** One of the most common reasons a tax return is rejected by the IRS is when you try to claim a dependent who has already been claimed by someone else. This often occurs when there is shared custody of a child.
- **Someone needs a completed tax return from you.** Completing certain transactions require your most recent tax return as evidence of your income, for example when you buy a house. Consider filing your tax return early so you can provide current tax information. This is especially important if you are self-employed and don't have regular salaried pay stubs to use as proof of income.
- **You need the refund ASAP.** Of course everyone would like their refund as soon as possible. One thing to remember, though, is that while the IRS started accepting returns in January, they won't begin processing them until mid-February. Returns that claim the Earned Income Tax Credit and the Additional Child Tax Credit will see processing of their returns start some time after Feb. 15. But otherwise, the sooner your tax return is in the queue, the sooner you should receive your refund.
- **You just want to get it out of the way.** Nothing reduces the stress of filing your tax return better than just getting it done. Instead of thinking about your return for several months and potentially running into a time crunch as the April filing deadlines gets closer and closer, you may want to just get it over with and file your return as soon as you are able.



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Tips to Make Sure Your Tax Return Doesn't Get Stuck!

Here are several ways to make sure that your tax return is prepared and filed as quickly (and as accurately!) as possible.

- **Keep tax documents in one place.** Missing tax documents are one of the biggest reasons that filing a tax return gets delayed! If you receive documents via both physical mail and e-mail, it's even more important that you have one place to store all your documents once you receive them.
- **Organize your tax documents by type.** To help make filing your tax return as easy as possible, sort your tax documents in tax return order. Glance through last year's tax return and create a folder for each section including income, business and rental information, adjustments to income, itemized deductions, tax credit information, and a miscellaneous bucket.
- **Create list of special events from the previous year.** You receive a Form W-2 from your employer every year. If you're in business, you probably receive a Form 1099 from certain clients each year. But certain tax documents you won't see each year. Selling a home doesn't happen every year for most people. Likewise with getting married (or divorced) or sending a kid to college. So create a list of special events that have happened over the past year, as some of these occasions may affect your taxes.
- **Don't forget your signature!** You (and your spouse, if married) must sign and date your tax return if physically mailing it to the IRS. Forgetting your signature could delay the processing of your return (and potential tax refund!) by up to several months. If e-filing, don't forget to sign Form 8879. This form authorizes the e-filing of your tax return.
- **E-file your return.** The IRS has struggled over the past 3 years to process paper-filed tax returns. In 2021, this backlog reach more than 20 million tax returns. You can



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avoid getting your physical return potentially misplaced by the IRS by e-filing. Even better, you can typically receive any refunds within one to two weeks when e-filing.

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

Keys to Success as an Independent Contractor

The number of independent workers continues to soar in the U.S. According to MBO Partners, there were 64.6 million independent workers in 2022, an increase of 26% from 2021. The number of full-time independent workers increased to 21.6 million, up from 15.3 million in 2019.

Succeeding as an independent contractor, however, can be challenging because it requires understanding a different set of key success factors than being a full-time employee. Here are some tips on developing your skill set as an independent contractor and where to turn to if you need help.

- **Contract for companies with generous payment terms.** The time required for companies to pay its bills to contract workers varies from business to business. Investigate a company's policy for paying its contract workers to make sure it's what you're expecting. Remember, cash is king!
- **Market your services by creating an online portfolio.** If being a contract worker is your full-time job, you'll need to always be looking for your next gig. One great way to market yourself to prospective businesses is to create an online portfolio that showcases the work you can perform. You can choose to build a website using a do-it-yourself service or hire a developer to create a custom website.
- **Stick to a budget.** As a full-time employee, you know the exact date you'll receive your paycheck and usually the exact dollar amount. As a participant in the gig economy, however, you could earn a bunch of money in one month and hardly any money the following month. Prepare a financial budget so you can use income earned during your good months to cover costs during low income months.



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- **Stay one step ahead of the IRS.** Paying taxes is now your responsibility. Participating in the gig economy requires more knowledge about how to meet your tax obligations, so ask for professional help. You can also find more information by visiting the IRS Gig Economy Tax Center.
- **Get advice from others.** Working primarily by yourself can leave you isolated from fellow workers. Join a local group of self-employed workers that meets on a regular basis to network and learn what other workers are doing to be successful.

Remember that you are not alone. The complex nature of tax obligations for contractors can be navigated with professional help.

Jumpstart Your Savings with These 3 Rules

While U.S. savings habits are improving, nearly 50% of Americans have no more than \$500 in the event of an emergency. If you want to ramp up your savings, every little bit helps. Consider these 3 rules to jumpstart your savings and start building wealth.

1. **Create a budget.** Track your expenses for one month to discover how much you really spend. Be sure to track everything, including food, utilities, household items and debt payments. Take your total expenses and multiply it by 6. This the amount of money to aim for saving in your emergency fund.
2. **Make household debt your enemy.** If you're juggling credit card, vehicle and mortgage payments, your savings accounts may be starved. And without enough cash to cover emergencies, many people resort to credit cards and lines of credit to cover unforeseen expenses. So the debt cycle continues. Since you now have a budget, you can see exactly how much debt you have to pay off.
3. **Review your income.** With your current level of income, calculate how long it will take to pay off all your debt, then build up your 6-month emergency fund. Depending on your financial goals, consider whether it makes sense to start a side gig, or continue upgrading your current skillset, to continue growing your income.



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How to Stay on Track

- **Treat your savings like a monthly bill.** Once you have an emergency fund, treat your savings as your most important monthly bill. Write a check to your savings account first, or have money automatically deducted from your checking account or paycheck and transferred to your savings account.
- **Contribute to retirement accounts.** Tax-deferred retirement accounts offer a smart way to save money for retirement. If your employer offers a 401(k) or SIMPLE retirement plan, contribute as much as you can. If your employer doesn't offer a plan, consider opening an individual retirement account (IRA). The money you contribute to a retirement account can reduce your taxable income and grow tax-free until withdrawn.
- **Control your spending.** When it comes to saving, think control. For example, control the use of your credit cards. The amount you pay each month in finance charges could go towards savings instead. Also control the use of your ATM card. Get in the habit of giving yourself a regular cash allowance, and try to live with it.

Creating Financial Goals as a Couple

Financial goals make it possible for you and your partner to achieve the things you dream about. Here are several action items to create – and achieve – financial goals as a couple:

- **Start talking sooner rather than later.** Finances can be hard to talk about. People sometimes feel guilty about debt or ashamed that they don't make more money than they do. More than that, many people consider money to be a private thing that shouldn't be discussed with others.

However, the first step to setting financial goals as a couple is to start talking. And the sooner you start talking with your partner, the better prepared you'll be to make positive financial decisions. Saving for a big purchase, for example, takes time and planning. Having a discussion early gives you more time to start saving.



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- **Agree on your goals.** Once you're talking about your finances, you'll want to agree on your goals. Would you like to pay off your credit card debt? Save for a big family vacation? Have more of a financial safety net?

After you've agreed on what you'd like to achieve, start talking about how you'll work together to achieve it. The best financial plans require both partners to contribute to the financial goal – whether that means each agreeing to contribute monthly to a savings account or cutting back on personal spending.

- **Keep the conversation going.** Plans need maintenance to succeed. That means continuing to talk about them, and checking progress on a regular basis. It's important for both partners to know all the numbers, even if one partner is the primary manager of the finances.

Scheduling a regular financial conversation is one way to keep you and your partner on track to achieving your goals. This financial date night is a good way to ensure that things are proceeding as planned. It's an opportunity to check in and adjust the numbers accordingly.

With open communication and commitment from both partners, you'll be well on your way to reaching your financial goals.

Save Your Business Time and Money by Getting Organized

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.



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- **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 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.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

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