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Online Advisor – June 2022

Upcoming dates:

June 14

- Flag Day

June 19

- Father's Day

The last thing you may want to do during the summer is start thinking about your 2022 tax return! The best way to lower your tax bill for next year, however, is to start looking for tax cutting strategies as soon as possible.

In this month's newsletter, read about some tax planning tips to help you lower your 2022 taxes. Also read about tax implications if you have a side hustle, money management tips for couples, and how to make your child's summer break a tax break!

Please feel free to forward the information to someone who may be interested in a topic and call with any questions you may have.

Start Your Tax Planning NOW!

Keeping your taxes as low as possible requires paying attention to your financial situation throughout the year. Here are some tips for getting a head start on tax planning for your 2022 return:

- **Check your paycheck withholdings.** Now is a good time to check your tax withholdings to make sure you haven't been paying too much or too little. The IRS has an online tool that will help you calculate how much your current withholdings match what your final tax bill will be. Visit <https://apps.irs.gov/app/tax-withholding-estimator>.

Action step: *To change how much is withheld from your paycheck in taxes, fill out a new Form W-4 and give it to your employer.*



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- **Defer earnings.** You could potentially cut your tax liability by deferring your 2022 income to a future year via contributions to a retirement account. For 2022, the 401(k) contribution limit is \$20,500 (\$27,000 if 50 or older); \$6,000 for both a traditional and Roth IRA (\$7,000 if 50 and older); or \$14,000 for a SIMPLE IRA (\$17,000 if 50 and older).

***Action step:** Consider an automatic transfer from either your paycheck or checking account to your retirement account so you won't have to think about manually making a transfer each month.*

- **Plan withdrawals from retirement accounts to be tax efficient.** Your retirement accounts could span multiple account types, such as traditional retirement accounts, Roth accounts, and taxable accounts like brokerage or savings accounts. Because of this you should plan for your withdrawals to be as tax efficient as possible.

***Action step:** One way to structure withdrawals is to pull from taxable accounts first, and leave Roth account withdrawals for last. Another approach would be to structure proportional withdrawals from all retirement accounts that would lead to a more predictable tax bill each year.*

- **Net capital gains with capital losses.** If you have appreciated investments you're thinking about selling, take a look through the rest of your portfolio to see if you have other assets that you could sell for a loss and use to offset your gains. Using the tax strategy of tax-loss harvesting, you may be able to take advantage of stocks that have underperformed.

***Action step:** Make an appointment with your broker to look over your portfolio to see if there are any securities you may want to sell by the end of 2022.*

Tax planning can potentially result in a lower bill from the IRS if you start taking action now. Please call if you have questions about your tax situation for 2022.



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Hustling for Extra Income

Don't forget the taxman!

From supplementing their current income to replacing income that was lost because of layoffs, the pandemic or other reasons, many people have started side hustles over the past 2 years to help make ends meet.

If you currently have a side hustle, don't forget about the tax implications from earning extra money. Here are several ideas to help you stay on top of your side hustle's taxes:

- **All income must be reported.** Income from side hustles can come from a variety of sources. Regardless of where the money comes from or how much it is, it is supposed to be reported on your tax return. If you do work for a company, expect to receive a 1099-NEC or 1099-MISC if you are an independent contractor, or a W-2 if you're an employee.
- **Keep good records and save receipts.** Being organized and having good records will do two things: ensure accurate tax reporting and provide backup in the event of an audit. Log each receipt of income and each expense. Save copies of receipts in an organized fashion for easy access. There are multiple programs and apps to help with this, but a simple spreadsheet may be all that you need.
- **Make estimated payments.** If you are running a profitable side business, you will owe additional taxes. In addition to income tax, you might owe self-employment tax as well. Federal quarterly estimated tax payments are required if you will owe more than \$1,000 in taxes for 2022. Even if you think you will owe less than that, it's a good idea to set a percentage of your income aside for taxes to avoid a surprise when you file your 2022 return.
- **Don't fall into the hobby trap.** You won't be allowed to deduct any expenses if the IRS determines that your side hustle is a hobby instead of a business. To make sure your side hustle is deemed a business by the IRS, you should show a profit during at least three of the previous five years.
- **Get professional tax help.** There are many other tax factors that can arise from side income such as business entity selection, sales taxes, state taxes, and more. Please call to set up a time to work through your situation and determine the best course of action for your side hustle.



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Money Management Tips for Couples

Couples consistently report finances as the leading cause of stress in their relationship. Here are a few tips to avoid conflict with your long-term partner or spouse.

- **Be transparent.** Be honest with each other about your financial status. As you enter a committed relationship, each partner should learn about the status of the other person's debts, income and assets. Any surprises down the road may feel like dishonesty and lead to conflict.
- **Frequently discuss future plans.** The closer you are with your partner, the more you'll want to know about the other person's future plans. Kids, planned career changes, travel, hobbies, retirement expectations — all of these will depend upon money and shared resources. So discuss these plans and create the financial roadmap to go with them. Remember that even people in a long-term marriage may be caught unaware if they fail to keep up communication and find out their spouse's priorities have changed over time.
- **Know your comfort levels.** As you discuss your future plans, bring up hypotheticals: How much debt is too much? What level of spending versus savings is acceptable? How much would you spend on a car, home or vacation? You may be surprised to learn that your assumptions about these things fall outside your partner's comfort zone.
- **Divide responsibilities, combine forces.** Try to divide financial tasks such as paying certain bills, updating a budget, contributing to savings and making appointments with tax and financial advisors. Then periodically trade responsibilities over time. Even if one person tends to be better at numbers, it's best to have both members participating. By having a hand in budgeting, planning and spending decisions, you will be constantly reminded how what you are doing financially contributes to the strength of your relationship.
- **Learn to love compromising.** No two people have the same priorities or personalities, so differences of opinion are going to happen. One person is going to want to spend, while the other wants to save. Vacation may be on your spouse's mind, while you want to put money aside for a new car. By acknowledging that these differences of opinion will happen, you'll be less frustrated when they do. Treat any problems as opportunities to negotiate and compromise.

Make Your Child's Summer Break a Tax Break

As a busy working parent, you may be on the lookout for activities that are available for your kids this summer. There may be a solution that's also a tax break: Summer camp!



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Using the Child and Dependent Care Credit, you can be reimbursed for part of the cost of enrolling your child in a day camp this summer.

Am I eligible?

1. You, *and* your spouse if you are married, must both be working.
2. Your child must be under age 13, your legal dependent, and live in your residence for more than half the year.

***Tip:** If your spouse doesn't work but is either a full-time student, or is disabled and incapable of self-care, you can still qualify for the credit.*

How much can I save?

For 2022, you can claim a maximum credit of \$1,050 on up to \$3,000 in expenses for one child, or \$2,100 on up to \$6,000 in expenses for two or more children.

What kind of camps?

The only rule is: *no overnight camps.*

The credit is designed to help working people care for their kids during the work day, so summer camps where kids stay overnight aren't eligible for this credit.

Other than that, it doesn't matter what kind of camp: soccer camp, chess camp, summer school or even day care. All of these are eligible expenses for this credit.

Other ways to use this credit

While summer day camp costs are a common way to use this credit, any cost to provide care for your children while you are working may be eligible.

For example, you can use this credit to pay a qualified day care center, a housekeeper or a babysitter to take care of your child while you are working. You can even pay a relative to care for your child and claim the credit for that expense, as long as the relative isn't your dependent, minor child or spouse.

This is just one of many possible tax breaks related to children and dependents. Please call if you have questions about this credit, or if you'd like to discuss any other tax savings ideas.

Six Simple Ideas to Help Your Small Business

Here are six ideas to help your business grow and thrive this summer.

1. **Understand your cash flow.** One of the biggest causes of business failure is lack of understanding cash flow. At the end of the day, you need enough cash to pay your vendors and your employees. If you run a seasonal business you understand this challenge. The high season sales harvest needs to be ample enough to support you during the slow non-seasonal periods.



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Recommendation: Create a 12-month rolling forecast of revenue and expenses to help understand your cash needs.

2. **Know your pressure points.** When looking at your business, there are a few big items that drive your business success. Do you know the top four drivers of your financial success or failure? By staying focused on the key drivers of your business, success will be easier to come by.

Recommendation: Look at last year's tax return and identify the key financial drivers of your business. Do the same thing with your day-to-day operations and staffing.

3. **Inventory matters.** If your business sells physical product, you need a good inventory management system. This system doesn't have to be complex, it just needs to help you keep control of your inventory. Cash turned into inventory that becomes stuck as inventory can create a major cash flow problem.

Recommendation: Develop an inventory system with periodic counts to ensure you do not have shrink or theft issues, and that can help identify when you need to take action to liquidate old inventory.

4. **Know your customers.** Who are your current customers? Are there enough of them? Where can you get more of them? How loyal are they? Are they happy? Several large customers can drive your company's growth or create tremendous risk should they take their business to a competitor.

Recommendation: Know who your target audience is and then cater your business toward them and what they are looking for in your offerings.

5. **Know your point of difference.** Once you know who your target customer is, understand why they buy your product or service. What makes you different from other businesses selling a similar item?

Recommendation: If you don't know what makes your business better than others, ask your key customers. They will tell you. Then take advantage of this information to generate new customers.



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6. **Develop a great support team.** Successful small business owners know they cannot do it all themselves. Do you have a good group of support professionals helping you? You need accounting, tax, legal, insurance, and employment help along with your traditional suppliers.

Recommendation: *Conduct an annual review of your resources. Be prepared to review your suppliers and make improvements where necessary.*

While libraries are filled with small business advisory books, sometimes focusing on a few basic ideas can help improve your business's outlook. Please call if you wish to discuss your situation.

Make Your Cash Worth More!

Banking tips to help you cash in

Your cash is parked in a bank account. Do you know if it's making or losing you money? Here are some ideas to help you make the most of your banked cash:

- **Understand your bank accounts.** Not all bank accounts are created equal. Interest rates, monthly fees, minimum balances, direct deposit requirements, access to ATMs, other fees and customer service all vary from bank to bank and need to be considered. Start by digging into the details of your accounts. There may be some things you've been unnecessarily living with like ATM fees or monthly account charges. Once you have a handle on your current bank, conduct research on what other banks have to offer.
- **Know your interest rates.** As a general rule, the more liquid an account, the lower the interest rate. Checking accounts offer the lowest rates, followed by savings accounts, which yield lower rates than Certificates of Deposits. Maximizing your earnings is as simple as keeping your cash in accounts with higher interest rates. The overall interest rate earned between all your accounts should usually be higher than the inflation rate, which is generally around 2 percent during normal times. But in the midst of high inflation like we are currently experiencing, your combined interest rate may have a difficult time beating the inflation rate.
- **Make smart moves.** There are a couple of things to take into account when making transfers. First, federal law allows for only six transfers from savings and money market accounts per month. If you exceed this number, you'll be hit with a penalty for each transaction that exceeds six transfers. Second, if you invest in longer-term investments like CDs or bonds,



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there are penalties for withdrawing funds before the maturity date. So make sure you can live without the funds for the duration of the term.

- **Stay diligent.** Putting together a cash plan is just the start. The key to success is to be persistent. Besides losing out on potential earnings, mismanaging your cash can result in hefty overdraft fees. The more attention you devote to your cash, the more your money will grow.

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

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