LAMBERTY, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor – May 2021

Upcoming dates:

May 9 - Mother's Day

May 17 - Individual income tax returns for 2020 are due

May 31 - Memorial Day

Tax day is finally here!

To celebrate getting your tax return finished, test out your knowledge of tax history with our trivia quiz. Also read about some helpful hints that can make paying your bills less stressful.

We also have some suggestions for how small businesses can help one another stay afloat until the entire economy returns to normal. Finally, read about some tips from the Federal Trade Commission on keeping your kids safe online.

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

Tax History Trivia!

With the IRS moving tax day back for all U.S. filers for the second time in as many years, it's time once again for a fun diversion by looking back at tax history! Test your tax knowledge using these questions to stump your friends and family.

- In 1861, President Abraham Lincoln enacted a flat tax on wages above $800 to help pay for the Civil War. What was the tax rate?
    - 3%
    - 5%
    - 12%
    - 17%

- ***a. 3%.*** *Even though Lincoln enacted this 3% tax, the Federal government didn't have an effective way to collect the tax at the time. The result? The tax fell far short of its projected revenue goals. Thankfully, the government now makes tax law changes with plenty of time to implement the change...oh, maybe not so much has changed after all!*
- In what year did taxes start being withheld from paychecks?
    - 1924
    - 1937
    - 1943
    - 1951
- ***c. 1943.*** *In a need to drum up some cash for a war, the government started requiring taxes to be withheld directly from paychecks rather than waiting for quarterly or annual payments.*
- The estate tax, which may apply to your assets after you pass away, was originally enacted in 1797 to fund which branch of the U.S. Military?
    - Army
    - Navy
    - Air Force
    - Marines
- ***b. Navy.*** *It was repealed in 1802, but later returned to help fund the Civil War.*
- In 1921, which state was the first to enact a sales tax?
    - Connecticut
    - Maryland
    - Pennsylvania
    - West Virginia
- ***d. West Virginia.*** *As of today, all but 5 states (Alaska, Delaware, Montana, New Hampshire and Oregon) have a sales tax. And it is as complicated as the imagination of the respective state legislatures.*

- The United States has a progressive income tax system, with your first dollar of earnings being tax-free and your last dollar earned being taxed as high as 37%. What was the highest tax rate when this progressive income tax system was first introduced in 1913?
    - 5%
    - 7%
    - 12%
    - 24%
- ***b. 7%.*** *Hard to believe the federal government didn't seem to need more taxes than this. The top tax rate did jump, however, to 77% five years later during World War I. The top individual income tax rate for 2021 is 37%.*
- Tax day this year is May 17, pushed back one month from the traditional April 15 deadline. But the deadline wasn't always April 15. Tax day moved to April 15 in 1954. What day were taxes due prior to 1954?
    - March 15
    - February 15
    - April 1
    - May 15
- ***a. March 15.***The deadline was moved from March 15 to April 15 in 1954 to give taxpayers more time to deal with the additional complexities being built into the tax law.
- How many pages of instructions were needed for the first Form 1040 in 1913?
    - 5
    - 21
    - 13
    - 1
- ***d. 1.*** *Speaking of added complexity, the basic Form 1040 instructions for the 2020 tax year has 111 pages.*

The Art of Bill Paying

Paying bills is an inevitable part of everyday life, but that doesn't mean it has to be stressful. Here are some ways to get control of your budget and perfect the art of stress-free bill paying.

- **Make a budget.** Knowing what you are making and what you are spending is essential to proper bill paying. First, find out how much you are making every month and then subtract the static items such as rent or mortgage payments, credit card payments and cell phone expenses. Then, budget out how much you will need for other essentials (such as food and clothing). Once the essentials are accounted for, you can look at the money you have left and decide where to allocate the rest.
- **Find a budget tool that works.** One of the best ways to get a handle on your finances is to use a budgeting app such as Intuit's Mint or PocketGuard. You can securely link your bank accounts to these apps and download all your transactions in the app. Your bank may also have an app to track your spending, so also check with them. You can then choose which tools to use to make a budget and categorize the transactions to be allocated to a certain part of the budget (such as food, car, housing, etc).
- **Set up autopay.** Put recurring bills such as utilities, internet, and your cell phone on autopay so they will be automatically deducted from your account on their due date. If you decide to use autopay, it is still a good idea to look at the amounts being deducted every month to make sure everything is correct.
- **Consider your non-regular payments.** Don't forget to account for bills that come due occasionally and plan for the cash outlay. Common examples of this are property tax payments, income taxes, and annual/semi-annual insurance payments. You will need to plan to have enough cash on hand for these expenses when they come due.
- **Adjust due dates.** Paying bills isn't as stressful when you know that you can afford to pay them, and what better time to pay bills than right after you get paid! The money will be there and you can pay those bills before that money has a chance to go anywhere else. Consider asking if you can change the

due dates for some or all of your bills to correspond with when your paychecks are deposited into your bank account.

- **Don't forget to pay yourself!** One of the best ways to start developing a savings account is making yourself part of your budget! Take however much you think you can spare and set up an automatic transfer to a separate savings account. Use this money to establish an emergency fund of approximately six to nine months of expenses. This extra cushion will come in handy if something unexpected occurs.

Helping Your Fellow Business Owner

Your firm survived 2020. Now you may be asking yourself when will the economy return to pre-pandemic levels? Will it be this fall? A year from now? Longer?

Until the economy fully emerges from the pandemic, small businesses can help one another stay afloat. By collaborating with other like-minded firms, your business can find creative ways to strengthen local markets and encourage consumer loyalty.

Consider the following ideas of how you can help each other:

- **Partner with industry peers.** One Vietnamese restauranteur in New York City was eager to open his business for in-person dining. Then the pandemic hit. According to a Time Magazine article, two years of careful planning, hard work and sacrifice seemed fruitless. But sympathetic restaurant owners in nearby Chinatown reached out with an innovative idea: offer a punch card to encourage customers to support local businesses. By partnering with this newly-minted entrepreneur and introducing him to like-minded people, established firms kept the restaurant business alive in their locale and helped a fledgling owner pursue his dream.
- **Donate staff resources.** During government-mandated quarantines, some industries enjoyed burgeoning revenues while others were trying to keep staff employed. Why not offer to help if you have excess labor? For example, businesses selling camping gear and recreational vehicles saw an uptick in consumer demand. A company supporting that industry might offer some of its staff on a temporary

basis to help another firm meet customer needs. Such a partnership could provide the added benefit of boosting morale and avoiding layoffs.

- **Leverage locations.** Say you're a company that raises chickens. You might partner with a firm offering other meat products to share a tent at a farmer's market. Or two dance studios might join forces to enable patrons to attend similar classes at across-town venues. You could team up with others to organize a business fair. Or you might donate space to help another business sell goods at a common location for centralized pickup and delivery.
- **Share your expertise.** Perhaps you've experienced great success with your business website, but other firms are struggling to make inroads in the digital marketplace. You could teach these companies how to connect with customers via social media. Train them to build and market a website. If you have remote workers, share your experience about helping home-based employees stay productive.
- **Cross promotions.** Look for businesses that you can help and that can help you. Then cross-promote each other's services. Customers of dog groomers need veterinarians and vice versa. Accountants need their hair cut and customers of hair salons need accountants. Vacation rental property owners can offer restaurant deals for their renters and restaurants can offer the rental owners coupons for meals. The ideas are endless, you just need to think creatively.

Before making a commitment to help another business, be sure to weigh the pros and cons. Any potential relationship should benefit both parties. Don't be afraid to consider companies outside your industry or local market, but look first to businesses with services and products complementing your own.

How to Protect Your Kids Online

Do you know what your kids are doing online? That question may seem like it has a simple yes or no answer, but that's hardly the case. With so many streaming platforms, social media outlets and new gaming options popping up every day, it's nearly impossible to fully protect your kids from what they can encounter online.

The Federal Trade Commission has several suggestions for protecting your kids online. Here are some of its recommendations.

- **Overcommunicate.** How successful you will be with your child's online safety hinges on communication. Ask them about the newest apps and online trends. Be open about the dangers of the internet and teach them to be skeptical about every website and app. Encourage them to bring concerning items they find to you to have a discussion. The goal is to make your child as concerned about their online well-being as you are.
- **Limit where and how they use their devices.** Most phones, tablets and computers have parental control options that allow you to set age, time and content restrictions. Spend some time to understand what's available to parents and how it works. It can be hard to know where to draw boundaries for your children, but don't let that discourage you. A good practice is to start by over-restricting and then becoming more lenient over time. In addition to what your kids can access, set rules about where they can use their devices.
- **Stress the safe-guarding of personal information.** Most kids know not to openly share addresses, phone numbers or personal information online, but there are a few places where it happens inadvertently. One of those is in your profile you set up for a website or app. In some cases, your profile is made public to other users. Another place it can happen is in-app chatting. Most apps and games have a forum that allow users to interact with one another. Frequently ask your kids about who they are interacting with online and follow up on any suspicious online relationships. Never allow photos of your home or address to be shared or posted.
- **Observe attitude and behavior.** Monitor your child's activity and let them know you are doing so. If your child is struggling with something they came across online, or have found themselves in a dangerous situation, they may show signs through their behavior. If you notice them withdrawing emotionally, looking to access devices in private, or showing signs of anxiety or depression, your kids may need your help.

Discussing the dangers of the online world with your child can be uncomfortable and awkward, but in today's interconnected world, it's imperative in order to keep them mentally healthy and physically safe.

Building a Fortress Balance Sheet

The best way to weather a storm is often by being prepared before the storm hits. In the case of small businesses, this means building a fortress balance sheet.

What is a fortress balance sheet?

This long-standing idea means taking steps to make your balance sheet shockproof by building liquidity. Like a frontier outpost or an ancient walled city, businesses that prepare for a siege—in the form of a recession, natural disaster, pandemic, or adverse regulatory change—can often hold out until the crisis passes or the cavalry arrives.

Building a fortress balance sheet isn't just a good idea for mitigating risk. Healthy cash reserves can also enable your firm to capitalize on opportunities, expand locations, or introduce new products.

Consider these suggestions for building your own fortress balance sheet.

- **Control inventory and receivables.** These two asset accounts often directly impact cash reserves. For example, carrying excess inventories can deplete cash because the company must continue to insure, store, and manage items that aren't generating a profit. Also take a hard look at customer payment trends. Clients who are behind on payments can squeeze a firm's cash flow quickly, especially if they purchase significant levels of goods and services—and then fail to pay.
- **Keep a tight rein on debt.** In general, a company should use debt financing for capital items such as plant and equipment, computers, and fixtures that will be used for several years. By incurring debt for such items, especially when interest rates are low, a firm can direct more cash towards day-to-day operations and new opportunities. Two rules of thumb for taking on debt are don't borrow more than 75 percent of what an asset is worth, and aim for loan terms that don't exceed the useful life of the underlying asset. A fortress balance sheet also means that debt as a percent of equity should be as low as possible. So total up your debt, equity and retained earnings. If debt is less than 50% of the total, you are on your way to building a stronger foundation for your balance sheet.
- **Monitor credit.** A strong relationship with your banker can help keep the business afloat if the economy takes a nosedive. Monitor your business credit rating regularly and investigate all questionable transactions that appear on your credit report. As with personal credit, your business credit score will climb as the firm makes good on its obligations.

- **Reconcile balance sheet accounts quarterly.** It's crucial to reconcile asset and liability accounts at least every quarter. A well-supported balance sheet can guide decisions about cash reserves, debt financing, inventory management, receivables, payables, and property. Regular monitoring can highlight vulnerabilities in your fortress, providing time for corrective action.
- **Get rid of non-performing assets.** Maybe you own a store across town that's losing money or have a warehouse with a lot of obsolete inventory. Consider getting rid of these and other useless assets in exchange for cash.
- **Calculate ratios.** Know how your bank calculates the lending strength of businesses. Then calculate them for your own business. For example, banks want to know your debt service coverage. Do you have enough cash to adequately handle principal and interest payments? Now work your cash flow to provide plenty of room to service this debt AND any future debt! But don't forget other ratios like liquidity and working capital ratios. The key? Improve these ratios over time.

Remember, the best time to get money from a bank is when it looks like you don't need it. You do this by creating a fortress balance sheet!

Taxes: These Basics are for Everyone

Understanding how our tax system works can be tricky for anyone. Whether you're an adult who never paid much attention to the taxes being withheld from your paycheck or a kid who just got his or her first job, understanding the basics can help refine and define questions you may have.

Many schools don't teach these tax lessons. This results in many people entering life with a pretty incomplete picture of how taxes work, unless someone else takes the time to explain these tax concepts. Here are some pointers to help you or someone you know navigate our tax maze.

Taxes are mandatory!

While we can have a debate about how much each person should pay, there's no debating that local, state and federal governments need tax revenue to run the country. These funds are used to build roads, support education, help those who need financial assistance, pay interest on our national debt and defend the country.

There are many types of taxes

When you think of taxes, most think of the income tax, which is a tax on business and personal income you earn from performing a job. But there are also other types of taxes. Here are some of the most common.

- **Payroll taxes.** While income taxes can be used to pay for pretty much anything the government needs money for, payroll taxes are earmarked to pay for Social Security and Medicare benefits.
- **Property taxes.** These are taxes levied on property you own. The most common example of this is the property tax on a home or vacation property.
- **Sales tax.** These are taxes placed on goods and services you purchase. While most of this tax is applied at the state and local levels, there are also federal sales taxes on items like gasoline.
- **Capital gains taxes.** If you sell an investment or an asset for a profit, you may owe capital gains taxes. The most common example of this is when you sell stock for a gain. Capital gains taxes could also come into play with other assets, such as a rental property you sell for a profit.
- **Estate taxes.** This tax is applied to assets in your estate after you pass away.

Not all income is subject to tax

Most, but not all, of your income is subject to tax.

- While your paycheck is subject to tax, interest earned from certain municipal bonds is not. And the government often excludes things like benefits from the tax man.
- Capital gains taxes have exclusions for gains on the sale of your home and donated stock.
- Estate taxes have an exclusion, so only estates in excess of the exclusion are taxed.

This is why having someone in the know can be really helpful in navigating these rules.

The progressive nature of income tax

When it comes to income taxes, the government gets to take the first bite. The question is how BIG of a bite the government gets to take.

For example, if you only have one chocolate chip cookie, the government's bite is really, really small. If you have 1,000 chocolate chip cookies, the government takes a small bite from the first 100 cookies, a larger bite from the next 100 cookies, and an even larger bite from the remaining 800 cookies.

This is called a progressive tax rate system. For example, if you're considered single for tax purposes in 2021, the first $9,950 of taxable money you earn gets taxed at 10%. The next $30,575 you earn gets taxed at 12%. The next $45,850 gets taxed at 22%. Money you earn above this point will get taxed at either 24%, 32%, 35% or 37%.

Understanding the progressive nature of our tax system is a key concept in managing the size of the bite the government takes. That is why tax planning is so important!

Deductions can decrease the government's tax bite

The progressive tax system is complex because it is manipulated in a big way by our elected officials. This is typically done through credits, deductions and phaseouts of tax benefits.

For example, there is a fairly complex deduction for families with children, and the earned income tax credit is an added tax cut for those in the lower end of the progressive income tax base. There are also credits and deductions for businesses, homeowners, education and many more types of taxpayers.

As you can imagine, the U.S. tax system is very complex with many nuances. Please seek help if you have further questions or are facing a complicated taxable transaction.

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

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