

IRS Update 2

How to protect your Social Security number 2

Smart tactics to manage student debt 3

Make setting salaries easier with these steps 4

CLIENT UPDATE

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I owe tax on that? 5 surprising taxable items

Wages and self-employment earnings are taxable, but what about the random cash or financial benefits you receive through other means? If something of value changes hands, you can bet the IRS considers a way to tax it. Here are five taxable items that might surprise you:

1. Scholarships and financial aid. Applying for scholarships and financial aid are top priorities for parents of college-bound children. But be careful — if any part of the award your child receives goes toward anything except tuition, it might be taxable. This could include room, board, books, travel expenses or aid received in exchange for work (e.g., tutoring or research).

Tip: When receiving an award, review the details to determine if any part of it is taxable. Don't forget to review state rules as well. While most scholarships and aid are tax-free, no one needs a surprise at tax time.

2. Gambling winnings. Hooray! You hit the trifecta for the Kentucky Derby. But guess what? Technically, all gambling winnings are taxable, including casino games, lottery tickets and sports betting. Thankfully, the IRS allows you to deduct your gambling losses (to the extent of winnings) as an itemized deduction, so keep good records.

Tip: Know when the gambling establishment is required to report your winnings.

It varies by type of betting. For instance, the filing threshold for winnings from fantasy sports betting and horse racing is \$600, while slot machines and bingo are typically \$1,200. But beware, the gambling facility and state requirements may lower the limit.

3. Unemployment compensation. Unfortunately the IRS doesn't give you a break on the taxes for unemployment income. Unemployment benefits you receive are taxable.

Tip: If you are collecting unemployment, you can either have taxes withheld and receive the net amount or make estimated payments to cover the tax liability.

4. Crowdfunding. A popular method to raise money for new ventures or to support a special cause is crowdfunding through websites. Whether or not the funds are taxable depends on two things: your intent for the funds and what the giver receives in return. Generally, funds used for a business purpose are taxable and funds raised to cover a life event (e.g., special causes or medical assistance) are considered a gift and not taxable to the recipient.

Tip: Prior to using these online tools to raise money, review the terms and conditions and ask for a tax review of what you are doing. If you need to account for taxes, reserve some of what you raise for this purpose.

(continued on page 2)

Even buried treasure is taxable!

QUESTION:

What do all these items have in common?

A golden CHALICE you unearth while metal detecting

A roll of \$100 BILLS found in a thrift-store couch

An authentic PICASSO you discover in the alley

ANSWER:

They're all taxable!

The IRS says if you find and keep property that doesn't belong to you, it's taxable to you at its fair market value in the first year it's your undisputed possession.

I owe tax on that?

(continued from page 1)

5. Cryptocurrency. Cryptocurrencies like Bitcoin are considered property by the IRS. So if you use cryptocurrency, you must keep track of the original cost of the coin and its value when you use it so the tax on your gain or loss can be properly calculated. Remember, the tax on property can vary if you own the cryptocurrency more than a year, so record all dates.

Tip: For those considering replacing cash with things like Bitcoin, you need to understand the gain or loss complications. For this reason, many people using cryptocurrency do so for speculative investment purposes.

When in doubt, it's a good idea to keep accurate records so your tax liability can be correctly calculated and you don't get stuck paying more than what's required. Please call if you have any questions regarding your unique situation. ♦

IRSUPDATE

Avoid a tax surprise — Check your withholding

There's still time to update your tax withholding to prevent an unexpected tax bill or large refund at tax time next year. A paycheck checkup is especially important if your job status changes or you've experienced other big life events this year that affect your income.

If you haven't already, use the withholding calculator on the IRS website to ensure you are withholding the correct amount. Remember to spread out any changes you make over the remainder of the year.

Renew your ITIN sooner, not later

Nearly 2 million Individual Taxpayer Identification numbers (ITINs) are set to expire at the end of 2019. The IRS urges taxpayers

to submit their renewal applications as soon as they can to beat the last-minute rush and avoid refund delays next year.

Taxpayers who will need to file a tax return in 2020 and have ITINs that are expiring will need to submit a renewal application. ITINs with the middle digits 83, 84, 85, 86 or 87 need to be renewed even if you haven't used it in the last three years.

Third-quarter interest rates decrease

The third-quarter interest rates are generally lower than second quarter. Overpayments are 5 percent for individuals and 4 percent for corporations. Corporate overpayments exceeding \$10,000 have a 2.5-percent interest rate. The rate charged on underpayments is 5 percent. And large corporate underpayments are charged 7 percent. ♦

How to protect your Social Security number

Very few things in life can create a higher degree of stress than having your Social Security number (SSN) stolen. This is because your SSN is virtually permanent. While most instances of SSN theft are outside your control, there are some things that you can do to minimize the risk of this ever happening to you.

▶ Never carry your card

Place your SSN card in a safe place. That place is never your wallet or purse. Only take the card with you when you need it.

▶ Know who needs it

As identity theft continues to evolve, there are fewer who really need to know your SSN. Here is that list:

- **The government.** The federal and state governments use this number to keep track of your earnings for retirement benefits and to ensure you pay proper taxes.
- **Your employer.** The SSN is used to keep track of your wages and withholdings. It also is used to prove citizenship and to contribute to your Social Security and Medicare accounts.
- **Certain financial institutions.** Your SSN is used by various financial institutions to prove citizenship, open bank accounts, provide loans, establish other forms of credit, report your credit history or confirm your identity. In no case should you be required to confirm more than the last four digits of your number.

▶ Challenge all other requests

Many other vendors may ask for your SSN but having it may not be essential. The most common requests come from health care providers and insurance companies. When asked on a form for your number, leave it blank.

▶ Destroy and distort documents

Shred any documents that have your number listed. When providing copies of

your tax return to anyone, distort or cover your SSN. Remember, your number is printed on the top of each page of Form 1040. If the government requests your SSN on a check payment, only place the last four digits on the check, and replace the first five digits with Xs.

▶ Keep your scammer alert on high

Never give out any part of the number over the phone or via email. Don't even confirm your SSN to someone who happens to read it back to you on the phone. If this happens to you, file a police report and report the theft to the IRS and Federal Trade Commission.

▶ Proactively check for use

Periodically check your credit reports for potential use of your SSN. If suspicious activity is found, have the credit agencies place a fraud alert on your account. Remember, everyone is entitled to a free credit report once a year. You can obtain yours on www.annualcreditreport.com.

Replacing a stolen SSN is not only hard to do, it can create many problems. Your best defense is to stop the theft before it happens. ♦





Smart tactics to manage student debt

According to the Federal Reserve, U.S. student loan debt is now \$1.5 trillion with more than 44 million borrowers. Only mortgage debt currently has bigger numbers among types of consumer debt. Even worse, more than 10 percent of these loans are past due. Here are some tactics to help make student debt easier to manage:

■ Know the loan terms

Not all student debt is created equal. Understanding the terms of all your student loans is important. With this knowledge, select the correct loan option and know which loan to pay first. Things you should know about each loan include:

- The interest rate
- The term of the loan
- Amount of any upfront fees
- Pre-payment penalties (if any)
- When interest and payments start
- Payment amounts
- Payment flexibility
- How the interest is calculated

Suggestion: Create a spreadsheet with a student loan in each column. Then note the variables from this list under each loan.

This will create a strong visual of your situation and show you which loans are most important.

■ Avoid accruing interest

Some student loans accrue interest while you are in school. With the compounding of this interest, your student loan amount continues to grow with each passing year before repayment begins. Banks love this — you should not.

Suggestion: Figure out how to make some or all of the interest payments while in school. This will not only lock the amount you owe, it will reduce the amount of overall loan payments.

■ Pay a little extra in the early days

The math of loans benefits banks in the early years of the repayment period. This is because the vast majority of interest is paid in the first years of repayment. By the time you get to the last year of repayment, payments are primarily the principal balance and interest is nil.

Suggestion: Pay extra every month as soon as payments start. While this seems impossible as you enter the workforce,

even \$25 extra per month can dramatically reduce the amount of total payments you make over the life of your loan. For example, a \$25 extra payment on a 10-year \$50,000 student loan with 5 percent interest would cut six months off the loan, save \$834 in interest, AND save \$3,180 in future loan payments!

■ Make small cuts elsewhere

Having a hard time finding a few extra dollars to make extra payments? Consider observing and then changing your spending habits.

Suggestion: Purchase one less latte a week. Drop one monthly service from a bill. Eat in more often. Then use these savings as a bonus payment on your student loan principal.

While student debt is often an unavoidable outcome of getting a college education, it can be minimized if actively managed. Small changes can yield results if planned for in advance. ♦

Your Tax Calendar

September 16

- Third-quarter installment of 2019 individual estimated income tax is due.
- Third-quarter installment of 2019 calendar-year corporation estimated tax is due.
- Third-quarter installment of 2019 calendar-year trusts and estates estimated tax is due.
- Filing deadline for 2018 calendar year tax returns for S corporations and partnerships with extensions of the April due date.

October 15

- Filing deadline for 2018 individual tax returns on automatic six-month extensions of the April due date.
- Filing deadline for 2018 calendar year tax returns for C corporations with extensions of the April due date.

During November

- Estimate your 2020 income tax liability and review your options for minimizing your 2019 taxes. Call to schedule a tax planning review.

How to make online reviews work for your business

Many factors play into a potential customer's decision to buy your product or service, but one thing is clear — online reviews are at the top of the list. A recent study by BrightLocal reveals that 91 percent of people read online reviews before making a purchasing decision, and over 80 percent of people trust the reviews as much as a personal referral! Here are suggestions to improve yours:

► **Create an impactful online presence.** Unless you just opened your business, there's a good chance it already exists in one of the many online directories: Google My Business, Yelp and Bing. If it does, you can claim the listing and start managing your customer reviews. If it doesn't, go through the process to create a new business profile. Then, set up a Facebook business page (with reviews enabled) and add a review section to your website to encourage your customers to engage with your business online.

► **Solicit great customer reviews.** While customers actively search out reviews when searching online, they don't always think to leave a review after a positive experience with your business. A personal request from you might be all that's needed to spring a happy customer into action.

► **Use negative reviews to your benefit.** If left unresolved, bad reviews can crush your business reputation. You have the opportunity to show potential customers (not just the reviewer) how you effectively handle negative situations. Take the time to understand their complaint, empathize with their situation, apologize for the problem, and offer a reasonable solution.

► **Keep listings fresh.** A long history of reviews is good to show that you are an established business, but current reviews are imperative to building a prospective customer's confidence. Seek out online reviews and keep your directory listings up to date to continue to show relevance and ongoing business activity.♦

Make setting salaries easier with these steps

Whether you are hiring for the first time, filling an open position, or conducting annual performance reviews, finding a salary range that attracts and retains valued employees can be a difficult task. Here are some suggestions to help make the process a bit easier for you and your company:

1 Know what your business can afford. Like any business expense, you need to know how it will affect your budget and cash flow. Make a 12-month financial forecast and then plug in the high end of the annual salary range you are considering to see if it's something your business can absorb. Don't forget to account for increases in benefit costs, especially the escalating cost to provide healthcare.

2 Understand the laws. In general, the federal government sets the minimum requirements (minimum wage of \$7.25 per hour, overtime rules and record keeping requirements). States and localities often add their own set of rules. For example, the state of Illinois, Cook County and the city of Chicago all have different minimum wage requirements. If you are

located in Chicago you need to adhere to the correct rate.

Research all payroll rules that apply to your location at the beginning of the process. When reviewing the rules, don't forget that different rules often apply depending on the number of employees in your business.

3 Review and update job descriptions. Take some time to review key jobs and update them as appropriate. With new positions, note the exact tasks and responsibilities you envision for the role. Then think about the type of person that will succeed performing these responsibilities. Once you have a clear picture of who you are looking for, you can begin to build a detailed job description and narrow in on a specific salary range.

4 Establish value ranges and apply them. Value is key when determining the perfect salary amount.

Define the range of value for the position and then apply that valuation to the current person's performance within the defined pay range. Use websites and recruiters to establish the correct range of pay, and then apply experience and employee performance to obtain a potential new salary amount. Remember, size of company, location and competitiveness of the job market are all factors to consider.

5 Factor in company benefits. A strong suite of employee benefits is a powerful tool to couple with a competitive salary. Don't be afraid to communicate their value to prospective and current employees (they help with retention, too!).

According to Glassdoor, health and dental insurance are the most important, but flexibility is close behind — over 80 percent of job seekers take flexible hours, vacation time and work-from-home options into consideration before accepting a position.

Finding the right salary can be tricky, but with some preparation and research, you can find the balance that satisfies the needs of your business and your employees.♦

