



Tax Newsletter

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SEPTEMBER 2020

- September 7** - Labor Day
- September 15** - Extension deadline for 2019 S corporation and partnership tax returns
- 3rd quarter 2020 estimated income tax is due
(individuals, corporations, trusts & estates)
- October 1** - SIMPLE IRA plan establishment due

Fall is right around the corner! As summer is winding down, the IRS wants you to be aware of common scams being encountered during the pandemic. Also included are tips to improve your credit score, and a review of alternative ways to budget so you can explore a method that works best for you. All this and some tips to save during your shopping excursions.

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.

IRS Announces Common Tax Scams

The IRS recently announced its 2020 edition of its annual *Dirty Dozen* list of tax scams with a special emphasis on aggressive and evolving schemes related to COVID-19 tax relief, including Economic Impact Payments. Here are six of the more common scams.

Phishing. Phishing refers to potential fake emails or websites looking to steal your personal information. Remember the IRS will never initiate contact with you via email about an outstanding tax bill, refund, or Economic Impact Payment.

What you can do. *If you receive any suspicious phishing emails, forward them to phishing@irs.gov.*

Fake charities. Criminals frequently exploit natural disasters and other crisis situations such as this year's pandemic by setting up fake charities to steal donations. Fraudulent schemes normally start with unsolicited contact by telephone, text, social media, e-mail, or even in person.

What you can do. *Verify the charity's existence by searching for it using the IRS's search tool.*

Threatening phone calls from IRS impersonators. IRS impersonation scams include phone calls threatening arrest, deportation, or license revocation if you don't pay a bogus tax bill. The IRS will never demand immediate payment or ask for financial information over the phone.

***What you can do.** If you received a phone call, contact your local IRS office to verify whether you owe any taxes.*

Social media scams. A scammer will use social media platforms such as Facebook and Twitter to obtain personal information from you, then use that information to trick you into providing them with confidential information. For example, the scammer could impersonate a family member, friend, or co-worker in an attempt to obtain financial information.

***What you can do.** Be careful of publishing confidential information on social media. Verify the identity of any person or organization that asks you for confidential information.*

Economic impact payment or tax refund theft. Criminals file false tax returns or supply other bogus information to the IRS to divert refunds or Economic Impact Payments to wrong addresses or bank accounts.

***What you can do.** Contact a qualified professional to help walk you through how to report identity theft to the IRS.*

Senior fraud. Senior citizens have become more comfortable with various technologies such as social media. This has opened the door for scammers to take advantage of senior citizens by using fake emails, text messages, and fake websites to steal personal information.

***What you can do.** Be the eyes and ears for the senior citizens you come in contact with. According to the IRS, anecdotal evidence indicates that senior fraud decreases substantially when a trusted friend or family member takes an interest in the senior's affairs.*

Great Tips to Improve Your Credit Score

You're ready to take out a loan to buy a house, a car or get a credit card. You fill out the application and wait to hear back from your bank on its decision whether to loan you the money.

And then you get the dreaded phone call. Your credit score wasn't high enough to approve the loan! Was there anything you could have done to get a higher credit score?

Getting and maintaining a high credit score is just like playing a game. But just like any game, you first need to understand the rules so you can create a winning game plan. Here are the rules of the credit score game you need to understand so you can get the highest score possible.

- **Rule 1 – Pay your bills on time (Comprises 35% of your credit score equation).** Payment history is the most important component of your credit score and is pretty straightforward – it's a record of whether or not you've paid your bills on time.

***Action:** Don't be late paying your bills! A one-time late payment may not affect your score, but multiple late payments will drag down your score. Even better, understand what vendors report your payment history and which ones do not.*

- **Rule 2 – Refrain from maxing out your credit (30%).** Just because you have a \$10,000 credit limit doesn't mean you should use it all. Using close to or all of your credit limit signals to lenders that you may be a high-risk borrower. Insurance companies also love to use high-limit spending as a reason to increase your home and auto insurance, so be forewarned!

***Action:** Don't use more than 25% of your available revolving credit, and pay the outstanding credit card balance in full each month.*

- **Rule 3 – Build a long history of using credit responsibly (15%).** Lenders want to see a track record that you can handle being entrusted with a credit limit. If you have old credit accounts that are still open and in good standing, that signals your trustworthiness, which is reflected in a higher credit score.

***Action:** When you open a credit account, keep it active for as long as possible. If you stop using an account, consider leaving that account open, but only if it will help your score and not hurt you in obtaining new credit.*

- **Rule 4 – Use multiple types of credit (10%).** Lenders like to see you with both revolving debt (credit cards) and installment debt (car and house loans).

***Action:** If you have a low credit limit, request a limit increase. Many banks will honor the request, especially if you've had a history of making on-time payments. If you don't have a history of using installment loans, consider making a small purchase (such as an appliance or electronic device) using an installment loan.*

- **Rule 5 – Avoid too many credit inquiries (10%).** Applying for many loans or credit cards in a short period of time tells lenders you may be attempting to acquire more credit than you can handle.

***Action:** Apply for only one type of credit at a time. Multiple inquiries for the same type of credit, for example a mortgage loan, within a short period of time will only count as one inquiry.*

You can improve your credit score by understanding these rules and putting them into practice.

Wardrobe Shopping Doesn't Have to Break the Bank

Shopping can be fun, but also drain your wallet. So how do you maintain a respectable wardrobe in a cost-effective way? Here are three tips to help you find your back-to-school and fall attire without breaking the bank.

Think versatility. Purchase items that can be paired with various articles of clothing and avoid apparel that is only occasionally useful.

For example, if you're going to a beach party, don't buy the Hawaiian shirt or sundress you'll only wear once (or twice!). Instead, guys could buy a lightweight button down shirt that can later be paired with a t-shirt combined with either shorts or pants, and women could purchase a flowy maxi dress that could be combined with a sweater and different types of footwear fitting any occasion.

Stick to items you can mix and match with the rest of your wardrobe and wear often.

Do you really need this? Consumers often find something they like—maybe even for a good price—and toss it into the shopping cart regardless of whether or not it will really be used or needed. When you're tempted to buy something new, ask yourself if you really need this or how often you will wear it.

To help yourself answer these questions, imagine a specific time in the future when you will wear the item. Imagine what else you will wear with it. Then think about what you have at home. If you have something that would do just as well, consider leaving the new article of clothing on the rack.

Asking yourself these questions doesn't mean you can never buy something new, but it will help you make thoughtful spending decisions when it comes to new clothes.

Shop second-hand. Most shoppers prefer shopping for new clothes rather than buying second-hand. You may be surprised, however, by the stylish, quality items you'll find for a fraction of the original retail price.

Consider taking the kids to a thrift shop and look for treasures at a fraction of the cost of one brand-new outfit. If you're looking for name brand attire, hit up the local consignment stores. Some resale stores sell only name brand and designer items, so you won't have to worry about filling your closet with cheap or out-of-style apparel. This doesn't need to replace your retail experience, it can simply compliment it.

As we collectively look for ways to save money during the pandemic, finding creative solutions in your wardrobe budget can really come in handy!

Find a Budget Method That Works

Which unique method of budgeting will work for you?

You have your own unique personality, preferences, and lifestyle. Likewise, how you manage and organize your finances can have its own personality, including how you budget. Here are five different methods of budgeting, each with a distinct way of helping you organize your spending and finances.

- **Traditional budget.** Use last year's budget as a base, make any necessary adjustments due to changes in your income or expenses, and create your budget by taking your income minus your expenses to equal the amount you have to spend.
- **Envelope budget.** Keep a set amount of cash for the month in envelopes labeled with an expense category like groceries, clothing, eating out, entertainment, etc. Use one envelope per expense category. If you run out of money in one envelope, you can dip into other envelopes, but this will obviously impact spending in those areas.
- **Reverse budget.** Instead of stashing away the money left over after you're done spending for the month, first take out your portion for savings and then spend the amount of money that remains. Reverse budgeting is an effective way to prioritize saving for your future retirement, an emergency or rainy-day fund, or other big expenses like a vacation, a new car, or a down payment on a house.

- **Zero-based budget.** Know where each dollar is going and record every single dollar spent. Also called the zero-sum or down-to-the-dollar budget, this method helps you get specific about spending and keeping track of all your dollars. Instead of one amount allotted for food, you know exactly how much you will spend on groceries, lunch while at work, and dining out. Instead of one amount allotted for savings, you know exactly how much you are putting into retirement, loan repayment, and emergency savings.
- **50/20/30 budget.** Stick to three spending categories. Each month, 50% of your take-home income goes toward needs, 20% toward savings, and 30% toward wants. Examples of needs are housing or car payments and groceries. Savings could be retirement money, paying off loans, and emergency funds. Wants include things like shopping, vacation, or entertainment. Less detailed than the zero-based or envelope methods but more detailed than traditional or reverse budgeting, the 50/20/30 method helps you monitor money habits by helping you stick to three categories every month.

The best budget approach? One that works for you and one that you will continue to use. So, pick an approach and try it. It can really change how you spend your money.

IRS Rolls Out Quicker Fix for Missing, Incorrect Stimulus Payments

Are you still waiting for your Economic Impact Payment? Did you get your payment, but it was for the wrong amount?

The IRS initially said you needed to wait until filing your 2020 tax return to resolve any issues with missing or incorrect Economic Impact Payments. Thanks to the prodding of the Taxpayer Advocate Service, the IRS has established procedures to help correct payment issues in the following scenarios:

- **Missing dependent payment.** The IRS will issue supplemental payments in the coming weeks to eligible individuals who normally do not have to file a tax return and claimed at least one qualifying child but did not receive the qualifying child portion of the payment.
- **Injured spouse.** Eligible individuals who filed for or can file for Injured Spouse Allocation (Form 8379) and did not receive their Economic Impact Payment will receive their payment in the coming weeks.
- **Math error.** Eligible individuals whose payment was based on a 2018 or 2019 tax return where the IRS adjusted the return for a math error that negatively impacted the original amount of the payment will now receive a payment for an approved adjusted amount. The IRS will work with the taxpayer to resolve the math error and, if appropriate, issue a payment for the additional amount.
- **Victims of identity theft.** Eligible individuals who were victims of identity theft have often not received a payment or the amount received is incorrect. The IRS will adjust the payment amount once the identity theft issue is resolved.
- **Deceased or incarcerated spouse.** Eligible individuals often have not received an Economic Impact Payment because they filed a joint return with a deceased or incarcerated spouse. The IRS will recalculate the payment and issue it only to the non-deceased/non-incarcerated spouse.

What you need to do

Contact the Taxpayer Advocate Service to determine if your Economic Impact Payment will either be corrected now or in 2021 when you file your tax return. The Advocate Service will be providing more details in the coming weeks about how to reach out to them for assistance.

Crisis Avoided: Connecting with Your Customers During an Emergency

Worldwide GPS technology giant, Garmin, became the latest high-profile business to get targeted by cyber criminals. It was widely reported that Garmin suffered a ransomware attack and ultimately paid a ransom of close to \$10 million to the perpetrators.

While Garmin immediately issued press releases notifying its customers and the public that it was experiencing an outage when the attack first took place, there was still criticism surrounding Garmin's lack of transparency with customers about the attack.

Here are the most important lessons learned from Garmin's ransomware attack about connecting with your customers during a crisis.

- **Be upfront with customers.** Garmin initially framed the outage as a maintenance issue before telling customers it was dealing with a company-wide outage that affected almost every customer interface, including its apps and call centers.
What you can do. Communicate with customers from the beginning of a crisis. While certain information may need to be withheld for legal reasons, be as transparent about the unfolding situation as you can be.
- **Be upfront with employees.** Unfortunately, customers learned about the true nature of Garmin's attack – that it was a ransomware attack and that the company paid a ransom of \$10 million – from Garmin employee leaks to the media, not from company leadership.
- *What you can do.* Tell your employees about the unfolding crisis from the beginning. Also, issue a statement about the crisis to the media before one of your employees starts leaking it to the press. Also let employees know to funnel their questions and comments to you, and not to the press!
- **Provide frequent updates.** After publishing an initial statement about your business's crisis, provide frequent updates, even if you have no new information. Your customers want to feel connected to the situation.

What you can do. Create a schedule with specific times when an update will be provided, and determine who will be in charge of pushing out the update.

Crisis and catastrophes – no matter what form they take – must be proactively dealt with in real time as they happen, including effective communication with your customers.

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

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us at 304-233-5030.