



Tax Newsletter

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Upcoming tax dates:

January 18 – 4th Quarter Estimated Payments Due

Take final year-end actions:

- Deductible gifts
- Capital gains/losses
- Charitable giving
- Dividend income

This month's newsletter features recent tax court cases that have great tax messages for all of us, great money tips, and ideas to help your business prepare for surprise expenses.

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.

Court is in Session – Notable Tax Court Cases

Despite the COVID-19 pandemic, political unrest, and severe weather events, the Tax Court has continued to churn out decisions affecting individual and business taxpayers. Here's a brief sampling of several cases that may be of particular interest.

- **Home (Not) Sweet Home.** (*Soboyede, TC Summ. Op. 2021-3, 1/26/21*) Your tax home area for deducting travel expenses isn't necessarily the place where you live. It's the general area of your primary workplace.

Facts: The taxpayer was an attorney with separate law practices in Minnesota and Washington, D.C. He deducted his hotel expenses and other travel costs in the D.C. area. However, his records showed that he actually spent more than 50% of his work time in or near the D.C. area. The Tax Court concluded that the attorney's tax home is in D.C. As a result, he couldn't deduct his hotel and other expenses from the D.C. area.

Tax Tip: You can deduct travel expenses only away from your tax home. If you work in multiple locations, be sure you know which location the IRS considers to be your tax home.

- **Skidding off the Racetrack.** (*Berry, TC Memo 2021-42, 4/7/21*) A business can deduct advertising and marketing expenses that are related to its business activities. No write-off is allowed, however, for personal expenses.

Facts: A father and son who owned a construction company were race car enthusiasts. They deducted expenses for the son's racing activities that were incurred as an advertising and marketing expense of the construction company. The Tax Court disallowed the deduction, ruling that the expenses were a hobby expenditure, not an ordinary and necessary business expense that can be deducted for tax purposes.

Tax Tip: Understand what is considered an ordinary and necessary business expense by the IRS and know whether your activity is deemed to be either a hobby or a for-profit business enterprise.

- **A Slight Understatement.** (*Pragrias, TC Memo 2021-82, 6/30/21*) The IRS normally has 3 years from the due date of a tax return to conduct an audit of that return. This 3-year period is extended to 6 years, however, if the tax return omits more than 25% of taxable income.

Facts: The taxpayer received \$4.9 million from a complex investment, but reported only about \$1.5 million. The IRS audited the return after 3 years. Despite the taxpayer's contention that he didn't omit taxable income (he said he merely understated it), the Tax Court ruled that the longer 6-year limit applies. And as a general rule, there is no statute of limitations for the IRS when fraud is involved.

Tax Tip: Understand the applicable statute of limitations with your tax returns.

Great Money Tips

Creating a sound financial foundation for you and your family is not always easy. With low interest rates as an incentive to borrow more, and even lower interest rates on savings accounts, is it any wonder that it's tough to retain the discipline to save? Here are some thoughts that may help.

1. **Pay yourself first.** Treat saving money with the same care you pay your bills. Take a percentage of everything you earn and save it. Using this technique can help build an emergency fund and keep you from living paycheck to paycheck.
2. **Use savings versus debt for purchases.** Unpaid debt is like compound interest, but in reverse. For instance, using a 12% interest credit card to pay \$1,500 for home appliances costs over \$2,000 if paid back over 5 years. The result is that you have to earn more to pay for the items you purchase. A better idea may be to save and then buy your dream item.
3. **Understand amortization.** When a bank loans you money, it gives you a specific interest rate and a set number of years to pay it back. Each payment you make contains interest, as well as a reduction of the amount owed, called principal. Most of the interest payments are front-loaded, while the last few payments are virtually all principal. Making additional principal payments at the beginning of the loan's term will decrease the amount of interest you pay to the bank and help you pay off the loan more quickly.
4. **Taxes are complex and require help.** Tax laws are complicated. They are made even more complex when the rules change, often late in the year. Furthermore, the IRS is not in the job of telling you when you forget to take a deduction. The best way to stay out of the IRS spotlight AND minimize your taxes is to ask for help.
5. **Gambling deductions.** You can generally deduct gambling losses up to the amount of your winnings from gambling activities if you can provide proper documentation. Save documentation for all your tax deductions, including gambling winnings and losses.

Surprise Bills: Prepare Your Business for the Unexpected

Getting a bill for an unexpected expense can put a significant dent in your business's cash flow. Here are some tips that your business can use to deal with a surprise bill.

- **Stick to a reconciliation schedule.** The best advice is to be prepared for the unexpected. Do this by knowing how much cash you have in your bank account at any given time. This is done by sticking to a consistent bank reconciliation schedule. Conventional wisdom suggests reconciling your bank account with bills paid and revenue received once a month. No matter what time frame works for you, be consistent with your review!
- **Build an emergency fund.** Getting surprised with an unexpected business expense isn't a matter of if it will happen, but when. Consider setting money aside each month into an emergency fund to be used only in the case of a significant expense. A longer-term goal could be to save enough money to cover 3 to 6 months of operating expenses.
- **Partner with a business advisor.** Even small businesses sometime need help keeping their cash flow in line and avoiding unexpected expenses. Please call if you have any questions about organizing your business's cash flow and preparing for surprise expenses.

Make Payroll Taxes Easy in 2022

Handling employment taxes can be complicated, especially when you're required to file important tax documents throughout the year. Here's a quick recap of the most vital payroll tax forms and what you can do to make your payroll life easier heading into 2022:

Important Payroll Tax Forms

- **Form 941 – Employer's quarterly federal tax return.** This form is used to report income tax withheld from employees' pay, and both the employer's and employees' share of Social Security and Medicare taxes. Employers generally must deposit Form 941 payroll taxes on either a monthly or semiweekly deposit schedule.
- **Form 940 – Employer's annual federal unemployment tax return (FUTA).** This return is due annually at the end of January. However, FUTA taxes must generally be deposited once a quarter if the accumulated tax exceeds \$500.
- **Form W-2 – Wage and tax statement.** Employers are required to send this document to each employee and the IRS at the end of the year. It reports employee annual wages and taxes withheld from paychecks.

Make Payroll Easier

- **Remind employees to review withholdings.** January is a great time to remind your employees to check their paycheck's tax withholding amounts. Various life events in the preceding 12 months can potentially lead to one of your employees owing a different amount of taxes in 2022 than they owed in 2021.
- **Create a payroll forecast.** Be prepared for how much you'll spend on salaries and wages in 2022 by creating a payroll expense and benefit forecast. In addition to base salaries and wages, include the following in total salary and wage expenses: Your share of an employee's Social Security and Medicare taxes; health insurance premiums paid on behalf of employees; and any other benefits you provide to employees.
- **Ask for help.** Payroll compliance involves many moving parts at the local, state, and federal levels. Please call if you have any questions about your business's payroll tax compliance, and how to properly account for payroll expenses on your financial statements.

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.

***From all of us at ZPLC, we wish you a
happy and safe holiday season!***



