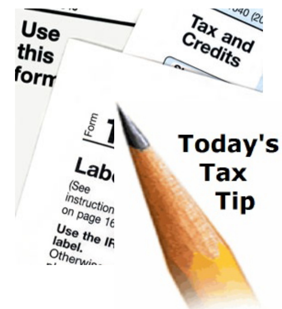
Tax Newsletter

ZENO, POCKL, LILLY AND COPELAND, A.C.

Certified Public Accountants & Advisors
980 National Road, Wheeling, WV 26003
511 N Fourth Street, Steubenville, OH 43952



FEBRUARY 2022

Upcoming dates:

February 14 – Valentine's Day
February 21 – President's Day

Reminders:

– Organize filing records (1099s, 1098s, W-2s, etc.)
– Schedule tax appointment for drop off or meeting
– Begin tax planning for 2022

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With tax season now officially underway, you'll start seeing more and more tax documents show up in your inbox or mailbox. And this year, there may be some different ones arriving. Outlined below is what you can expect with this year's new documents. This month's newsletter also features a great article discussing common areas of tax surprises, plus a great set of ideas to help you protect yourself while online and to minimize your digital footprint, as well as some great tips for you if you have a home-based hobby or business.

Please enjoy the information, and pass along articles of interest to all of your family and friends. And, as always, please call us at (304) 233-5050 if you have questions or need help. Don't forget to like and follow us on Facebook to stay up to date this tax season (and throughout the year)!

Easy-to-Overlook Tax Documents

Here are several important tax documents that may be easy to miss in your mailbox or inbox:

Child tax credit letter. From July through December 2021, the IRS paid out 50% of projected child tax credit payments to qualified households. The IRS is sending out a recap of these advance payments in Letter 6419 that you can use to correctly account for these payments on your tax return. This letter should have arrived in your mailbox by late January. Please be sure to include Letter 6419 with your tax information.

Stimulus payment letter. The IRS issued millions of economic impact payments during 2021. The IRS is mailing a summary of these payments that you received in Letter 6475. As with the child tax credit letter, you can use this letter to accurately report your economic impact payments on your tax return. This letter also should have arrived in your mailbox by late January, and should be included with your tax information.

Identification PIN. The IRS may have assigned you an Identity Protection PIN ("IP PIN") to help protect your identity. An IP PIN is a six-digit number that prevents someone else from filing a tax return using your Social Security Number or Individual Taxpayer Identification Number. This IP PIN is known only to you and the IRS. If you are a confirmed victim of tax-related identity theft and the IRS has resolved your tax account issues, the IRS will mail you a CP01A Notice with your new IP PIN each year.

Corrected tax forms. If an error is discovered on a tax form that you have already received, a corrected version will be created and then mailed to both you and the IRS. You can also request a corrected tax form if you believe you have found an error. Here are some of the forms you might see with corrections:

- Form W-2 from your employer that shows corrected wages, salary, and taxes withheld
- Form 1099-INT or Form 1099-DIV from your investment broker that shows a revision in interest and dividend income
- Form 1099-NEC from a client to whom you provide services
- Form 1098 that shows how much mortgage or student loan interest you have paid

You may not be aware that you were issued a corrected tax form until it shows up in your mailbox or inbox. If you do receive a corrected form, don't throw the old version away! Save both the original version AND the corrected version in case either are needed for future reference.

The ease of filing your tax return is often dependent on having the correct information, so remember to look for everything, including these often overlooked forms.

I Owe Tax on That? ***Five Surprising Taxable Items***

Wages and self-employment earnings are taxable, but what about the random cash or financial benefits that you receive through other means? If something of value changes hands, the IRS will consider 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 that is 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 tax surprise.*

2. **Gambling winnings.** Technically, all gambling winnings are taxable, including casino games, lottery tickets, and sports betting. The IRS allows you to deduct your gambling losses (to the extent of winnings) as an itemized deduction, so be sure to keep good records of your gambling activity.

   Tip: *Know when the gambling establishment is required to report your winnings. This varies by the 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 be aware, the gambling facility and state requirements may lower the limit.*

3. **Unemployment compensation.** Congress gave taxpayers a one-year reprieve in 2021 from paying taxes on unemployment income. Unfortunately, this tax break did not get extended for the 2022 tax year. Unless Congress passes a law extending the 2021 tax break, unemployment will once again be taxable starting with your 2022 tax return.

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

4. **Social Security benefits.** If your income is high enough after you retire, you could owe income taxes on up to 85% of the Social Security benefits that you receive.

   Tip: *Consider delaying when you start collecting Social Security benefits, if it makes sense for you or your financial situation. Waiting to start receiving benefits means that you will avoid paying taxes on your Social Security benefits for now, plus you'll get a bigger payment each month you delay until you reach age 70.*

5. **Alimony.** Prior to 2019, alimony was generally deductible by the person making alimony payments, with the recipient being generally required to report alimony payments that have been received as taxable income. Now the situation is flipped – for divorce and separation agreements that have been executed on or after December 31, 2018, alimony is no longer deductible by the payer, and the alimony payments that have been received are not reported as income.

Tip: *Alimony payments no longer need to be made in cash. Consider having the low-income earning spouse take more retirement assets, such as 401(k)s and IRAs, in exchange for reduced alimony payments. This arrangement would allow the higher-earning spouse to make alimony payments by transferring such retirement funds without paying income taxes on it.*

When in doubt, it is a good idea to keep accurate records so that your tax liability can be correctly calculated and so that you don't get stuck paying more than what is required.

Great Tips for Your Home-Based Business

Home-based businesses can be financially rewarding and often provide a certain amount of flexibility with your day-to-day schedule. Here are some tips to keep your business running at full steam:

- **Stay on top of accounts receivable.** It is easy to get caught up with fulfilling your business obligations while invoices you have sent out remain unpaid. Agree to payment terms in advance with new customers and immediately, but politely, communicate with them as soon as they miss a payment deadline. Stay current with regular invoicing and collections.

- **Keep your bookkeeping records up-to-date.** You may not realize that you have an unpaid invoice that is several months old, unless your bookkeeping is up-to-date. In addition to monitoring your bank accounts monthly, also consistently look at your accounts receivable, accounts payable, any debts (credit card, car loans, or other borrowings), and all of the money that you invest in your business. Don't be afraid to ask for help if you don't have enough time to do the bookkeeping yourself, or if you need help properly setting up your bookkeeping software.

- **Check on permit requirements.** Depending on what type of home-based business you have, you may be required to obtain various permits, licenses, or other registrations. If you have not already done so, check with your town or city for local requirements. The Small Business Administration is also a good source to research information on permits.

- **Get insured.** Obtain adequate insurance for the type of operation you will be running. Besides the insurance that is required for business activities, you might consider adding a rider to your homeowner's policy for liability protection, should an accident occur on your property.

- **Cash in on tax breaks.** Take advantage of the tax breaks that are available to home-based businesses, including deductions for supplies, equipment, and vehicle expenses. You may even be able to deduct the cost of your home office, including a pro-rated amount of your real estate taxes and utilities, if certain conditions are met.

- **Set aside money to pay your taxes.** Ask for help on how to calculate how much of your incoming cash you should be setting aside to pay your federal, state, and local taxes. Consider opening a separate bank account to set aside your tax money payments.

Protecting Your Digital Footprint

In today's digital age, the internet is everywhere. Even if you don't have a computer or any active social media accounts, there is most likely still some information about you in some corner of the web. Here are some ideas to help you manage your digital footprint:

- **Actively manage your security settings.** Every app, social media site, and web browser have multiple layers of privacy and security settings. When you download a new app or register with a new site, don't simply trust the default settings. Look through the options yourself to ensure that you are comfortable with the level of privacy. One thing to watch for with apps on your phone is location settings. Some apps will track your location even when the app isn't running.

- **Protect your online image.** Career search firms now have strategies built entirely around recruiting through social media. In addition to recruiting, human resource departments will vet prospective employees by reviewing social media profiles. Pay attention to what others post about you, as well.

- **Know your friends.** Be aware of who you are connected to on social media sites. Be cautious of accepting connection requests from people you don't know, as some of these requests could be a phishing attempt to swipe confidential information.

The best defense of your private information is you. Having a plan and actively managing your online profiles is the best way to minimize the chance of your personal data falling into the wrong hands.

Cryptocurrency: The IRS is Watching You!

Whether you own cryptocurrency or not, everyone should know the tax rules surrounding this type of property as it becomes more popular. Here's what you need to know about the IRS and cryptocurrency:

Background

The IRS generally considers cryptocurrency (also referred to as virtual currency or digital currency) to be property, just like stocks and bonds, for federal income tax purposes.

Therefore, if you sell cryptocurrency at a gain, it is subject to capital gains tax. Similarly, you may claim a capital loss on the sale or other disposition of cryptocurrency. Anytime you exchange cryptocurrency for actual currency, goods, or services, the IRS says it's a taxable event.

Say that you hold Bitcoin for longer than one year and then sell it at a gain. The gain is taxable, up to 20%. High-income taxpayers may also need to pay a 3.8% surtax on the cryptocurrency gain. Accordingly, you can use a loss from a cryptocurrency sale to offset capital gains, plus up to $3,000 of ordinary income. Any excess is carried over to the following tax year.

The IRS is Getting Involved

Here's how the IRS is stepping up enforcement efforts regarding cryptocurrency transactions:

- **Answer a Form 1040 question.** The IRS now has a cryptocurrency question on Page 1 of your tax return, just below your name. Before filling out any part of your tax return, the IRS wants you to state whether you received, sold, exchanged, or otherwise disposed of any financial interest in any virtual currency.

- **Brokers must report transactions.** After 7 years of gently prodding taxpayers to self-report cryptocurrency transactions, Congress has given the green light for the IRS to obtain cost basis and sales proceeds information for all crypto transactions directly from brokers (such as CoinBase, Electrum, or Mycelium) or other individuals who regularly provide digital asset transfer services on behalf of other people. Similar to the reporting of stocks and bonds, taxpayers will receive a Form 1099-B from brokers that list all crypto transactions. These new reporting rules are effective beginning January 1, 2023.

- **Expanded $10,000 reporting requirement.** Businesses that accept virtual currency as payment may be required to report transactions above $10,000 to the IRS beginning January 1, 2023. Cryptocurrency and other digital assets would be considered cash for purposes of the $10,000 reporting requirement, while the IRS will continue to treat cryptocurrency as real property (and not cash) for tax compliance purposes.

What you need to do

Here are some suggestions for tracking and reporting your cryptocurrency transactions on your tax return:

- **Keep up-to-date records.** Consider tracking each transaction as they occur throughout the year. You may also want to keep your own transaction ledger as a way to double-check the accuracy of your broker's statements.

- **Set aside money to pay taxes.** Consider saving a certain percentage of each cryptocurrency transaction you sell at a gain for the taxes you may need to pay.

Business Metrics that Have Impact

At the end of the year, it is easy to compare revenue, gross margin, and profitability to the prior year and to your business plan. Here are a few ideas of other metrics to consider.

- **Customer acquisition cost.** Divide the total amount of money you've spent on marketing over a set period by the number of new customers you've gained. The result is your cost per new customer, also known as your customer acquisition cost. To get an even better read, divide your marketing costs into two buckets: one you spend on current customers and one for money spent to acquire new ones. Now you have two metrics: customer acquisition cost AND customer retention cost. Compare these figures against prior years to see if you are becoming more efficient.

  To go a step further, look at how much each new customer spends on average, compared with how much it costs to acquire them. Knowing your rate of return for each customer can help you revise your marketing strategy.

- **Lead-to-client conversion rate.** For many businesses, generating leads is an integral part of the selling process. If this is true for your business, clearly define each step of the sales process from lead to purchase. You can judge how successful your sales efforts are over time by calculating how many qualified leads have been converted to sales. Remember to use these measures to refine and improve your selling process.

- **Website traffic.** Use tools such as Google Analytics to find out who is visiting your website, from where, and what they spend the most time on while they're there. You can learn a lot about your potential customers and your market by keeping notes on how your website traffic changes over time and how it reacts to new content.

- **Seasonality.** Understand and keep track of the seasonal trends for both sales and the number of orders by month in your business. This helps manage human resources and cash flow in both busy and slow periods. Examining these metrics for sales and web traffic can help you prepare inventory and staffing for the busy season. It will also help you time the scheduling of technical upgrades and equipment repairs for expected slow periods.

- **Cash burn rate.** Keeping a close watch on your cash flow statement, as well as your income and balance sheet, is the key to keeping your business running smoothly. Simply subtract how much cash you have at the start of the month from what you have at the end of the month. You can then divide your reserves by your cash burn rate to see how many months you can sustain that rate.

  A key to the usefulness of this measurement is maintaining a forward-looking financial forecast for the next 12 months. This will help you take timely actions to avoid a cash crunch, such as cutting costs, improving sales, or collecting accounts receivable.

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.

Because the IRS cares...
a lot