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The CFO Advisor

Guidance for Small Business Success™

Welcome to the **June** edition of “The CFO Advisor.” I love the month of June because it means that Summer is in bloom.

This month starts off with an article titled, “Is Canceled Debt Taxable?” that explains how canceled debt affects taxes and if you qualify. We continue the newsletter with an article that provides you with four refundable and nonrefundable tax credits that may affect you!

As the weather changes, we always want to make sure that we are taking the proper precaution – whether it is to stay hydrated or get active, read on to learn why and how. Then the newsletter continues with articles that discuss successful team work guidelines, how to be an effective employee, and important advice for a first-time home buyers.

Enjoy this month’s edition!

Dwight L. Hulse, CPA/CITP,CGMA



Is Canceled Debt Taxable?

What exactly is canceled debt and how does canceled debt affect taxes? Let’s first answer what canceled debt is and then we will delve into how canceled debt can affect your tax situation.

In brief, canceled debt is debt that has been forgiven or discharged by a creditor. A common example of canceled debt is a credit card charge-off. Now that you know what canceled debt is, I’ll share with you how it can affect your tax situation.

At some point after debt is discharged or forgiven, the creditor gets around to sending the debtor a Form 1099-C showing the amount that was forgiven or discharged. If the debt was less than \$600, you likely will not receive a Form 1099-C. The first paragraph of the instructions for the Form 1099-C which is titled, Cancellation of Debt, reads as follows;

“You received this form because a Federal Government agency or an applicable entity (a creditor) has discharged (canceled or forgiven) a debt you owed, or because an identifiable event has occurred that either is or is deemed to be a discharge of debt of \$600 or more. If a creditor has discharged a debt that you owed, you are required to include the discharge amount in your income, even if it is less than \$600 on the “Other Income” line of your Form 1040. However, you may not have to include all the canceled debt in your income. There are exceptions and exclusions, such as bankruptcy and insolvency. See Pub. 4681, available at IRS.gov, for more details. If an iden-

tifiable event has occurred but the debt has not actually been discharged, then include any discharged debt in your income in the year that it is discharged, unless an exception or exclusion applies to you in that year.”

As mentioned above, generally, canceled debt should be included in your income as Other Income (Line 21 of the Form 1040), unless you qualify for an exception or an exclusion. While bankruptcy and insolvency have been mentioned, there are other exceptions and exclusions that qualify you to ex-

clude canceled debt from your income as well. By the way, insolvency seems to be the most popular exception/exclusion that taxpayers use.

If you qualify for an exception or exclusion, there are a few steps that you need to take to officially exclude the canceled debt from your income. No, it is not as simple as not listing it on your tax return. To officially exclude the canceled debt, you will need to complete the Form 982, which is titled Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment). The Form 982 should be attached to your tax return for the year that the debt was canceled.

I strongly recommend for you to contact your tax specialist if you are ever in this predicament. The tax laws surrounding this one are complex and not handling it correctly could trigger penalties and/or an audit. ♦



Do You Qualify For Tax Credits?

I love tax credits because

they help to reduce the taxes my client has to pay Uncle Sam. The two main types of credits that can reduce your tax bill is the refundable tax credit and the non-refundable tax credit. Before delving into this topic, let me describe these two credits.

A refundable tax credit is a credit that can reduce your tax liability below zero, in turn creating a refund for you. Hence, the term, refundable credit (a refund of the credit). If the refundable credit amount is larger than the tax liability, you will receive the difference between the refundable credit amount and the tax liability amount in the form of a refund.

Some refundable tax credits are as follows:

- *Earned Income Credit;*
- *Net Premium Tax Credit (Form 8962);*
- *Additional Child Tax Credit; and*
- *Small Business Healthcare Tax Credit.*

Refundable credits are treated like payments made to the IRS and these credits are listed in the Payments Section of the Form 1040, which start on Line 64.

Now that you know what a refundable credit is, let's define and talk about the non-refundable credit.

A non-refundable credit is a credit that

is subtracted for your tax liability up to the total amount that you owe. Unlike refundable credits, a non-refundable credit does not reduce your tax liability below zero, which means that any portion of the nonrefundable credit that is unused will not be refunded to you, will expire in the year claimed, and cannot be carried over.

Some non-refundable tax credits are as follows:

- *Child & Dependent Tax Credit;*
- *Savers Tax Credit;*
- *Adoption Tax Credit; and*
- *Foreign Tax Credit.*

So, what if a credit fits into both categories (refundable and non-refundable), then what? When this is the case, the credit would be considered a partially refundable credit. A partially refundable credit is not as cut and dry as a refundable or non-refundable tax credit. As confusing as it may sound, the partially refundable credit can be subtracted from the amount of taxes owed and (to an extent), applied to increase that tax refund. The concept is a bit confusing to say the least. An example of a partially refundable tax credit is the American Opportunity Tax Credit.

Not sure if you qualify for a tax credit? Please don't hesitate to reach out to your tax specialist. While you may not have qualified for a tax credit in one year, you may in the following year.

First-Time Home Buyer? Remember This Advice.

Buying your first home is a major step. Make sure you're ready by checking out NerdWallet's list of things to think about:

- ✓ **Know how much you can afford.** Look at your finances so you can decide how big a down payment you can make and how much you can afford in mortgage costs.
- ✓ **Check your credit.** Make sure you have a solid credit score before you start shopping for a house. Don't apply for a new credit card or a loan while you're looking for a mortgage — a lender's hard inquiry can make your credit score drop.



- ✓ **Remember closing costs.** Closing expenses can add up to 5 percent to your home purchase. Shop around to find the rate you can afford, and include that in your budget.
- ✓ **Save money for ancillary expenses.** Once you've bought a house, you'll undoubtedly have to pay for movers, new furnishings or appliances, painting, or any other changes you want to make before and after you move in.
- ✓ **Think long-term.** If you're planning to start a family, choose a home with that in mind so you have the space and accommodations you need. You don't want to have to move just a few years after buying your first house.

Are You In Need of a Trusted Business Advisor?

If you are not my client and would like to explore whether we might be a good fit, please contact me. As an experienced business advisor, I have worked not only in private and public industries but also across many functional areas and can help you implement best practice solutions to improve profits.



Do You Have A Tough Accounting / Finance Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I'm always looking to answer pressing questions you might have relating to small business. If you have a question, tip or idea, please call me at 352-450-2880 or email me at dwright@dlhulseconsulting.com. Perhaps I'll feature you in a future issue!

Keep An Eye Out For Dehydration

Dehydration can be a serious health issue. Without enough water, your body can't keep your temperature steady and eliminate waste efficiently. You feel tired, suffer headaches, and your mood and ability to focus may dip. Here are some symptoms to watch for, from the WebMD website:



- **Infants and young children.** Babies with dehydration may have dry tongues and no tears when they cry. Look for diapers that are dry after three hours or more. They tend to be fussy, and in extreme cases, their eyes and cheeks appear to be sunken.

- **Older children and adults.** Thirst is an obvious sign, along with a dry mouth and tongue. Lack of regular urination is also a symptom, and when you do urinate, the liquid will be dark and/or smelly. Dizziness, a faster heartbeat or breathing rate, and increased irritability may also be present. How much water should you drink? Some experts advise eight glasses a day, though others say that's only a rough estimate, not an absolute rule. Drink when you feel thirsty, depending on how active you are and your general health.

Here's One More Reason To Get Up And Get Moving This Summer:

It might help your memory. The results of a six-month study hint at a possible link between exercising and improved memory for dealing with some mild forms of cognitive impairment. Of course, any changes in memory or thinking can be precursors to more serious conditions, or side effects of certain medications. However, for those experiencing mild changes in cognition due to aging, exercising as little as twice a week seemed to be beneficial in helping them to stay sharp. More research is needed to determine just how much of an impact exercise can have on the aging brain. Until then, the Alzheimer's Association and other organizations are embracing these new findings and hoping you do too.



Follow These Steps For Successful Teamwork

Collaboration and teamwork are essential in today's workplace. To contribute to your organization's success while working together, follow these guidelines:



1) Discuss your goals. Whatever the project is, sit down to define what you're trying to accomplish. Document goals in clear language so everyone knows what success requires.

2) Identify each other's strengths. Find out what people do well so you can use their skills accordingly. Pair up people with complementary strengths and weaknesses so they can balance each other and do good work.

3) Determine roles and responsibilities. Once you've set down goals and spotlighted strengths, decide on specific jobs for everyone. This helps hold individuals accountable and lets team members know what to expect from each other.

4) Encourage creativity. Don't settle for the same solutions to every problems and challenges. Brainstorm to develop new ideas. Don't discard anything that sounds too outrageous. You may be able to adapt it to something more practical.

5) Celebrate success. Once you've reached your goal, take time to enjoy it. Go out to lunch, or throw a party. This provides positive reinforcement for the team's hard work, and prepares everyone to move onto the next project.



No one could bring him back from his island paradise.

Quotes:



"If you are successful, it is because somewhere, sometime, someone gave you a life or an idea that started you in the right direction. Remember also that you are indebted to life until you help some less fortunate person, just as you were helped." — **Melinda Gates**

"The man who will use his skill and constructive imagination to see how much he can give for a dollar, instead of how little he can give for a dollar, is bound to succeed." — **Henry Ford**

"We need to accept that we won't always make the right decisions, that we'll screw up royally sometimes — understanding that failure is not the opposite of success, it's part of success." — **Arianna Huffington**





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Disclaimer: Any accounting, business or tax advice contained in this communication, is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties.

Learn What Employees Want From Leaders

What do your employees really want? Jumping to conclusions isn't safe, but to be an effective leader, remember these basic truths about everyone who works for you:

- **"I want to feel important."** No one wants to feel like a number, interchangeable, and easy to forget. Get to know your employees as people; find out what makes each one unique and show them you're paying attention to their individuality.
- **"I need encouragement."** Even the best employees continue to flourish and grow with positive feedback. Let them know what they're doing right and how they can keep performing at a high level. They'll notice and keep up their efforts.
- **"I want to believe in you."** Employees want to know they can trust you — your knowledge, your expertise, and your word. Show your commitment to helping them succeed and grow by listening, answering questions honestly, and keeping your promises.
- **"I want to succeed."** Most employees want to do a good job, even if they don't necessarily want to advance to upper management. Explain your expectations clearly, and give them the training and support they need so they know you're invested in helping them succeed.
- **"I want to be motivated."** Yes, motivation springs from inside, but employees want to be told why they should complete a project or improve quality in terms that make sense to them. Emphasize the job's value to the organization, as well as the benefits the employee will enjoy — personal satisfaction as well as more tangible rewards — to unleash their enthusiasm and commitment.



Good Advice

"What can I get for you today?" asked the waiter.

"I'll take the meatloaf dinner and a bit of good advice," said the man seated in the booth. Minutes later, the waiter returned with a hot plate of food.

"Here you go." "Hey, what about the good advice I asked for?"

The waiter leaned down and whispered, "Don't eat the meatloaf."

