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April 2021

# The CFO Advisor

## Guidance for Small Business Success™

Welcome to the April 2021 edition of **"The CFO Advisor"** Newsletter!

Already four months into the New Year and the personal tax deadline looming ahead; how time flies!

We start this month's newsletter with an article about how major life events might impact your tax situation. Also, read about the pros and cons of hiring independent contractors vs. employees, and why you need to get your worker classification right to avoid possible trouble with the IRS. You'll also find several tips for engaging with your customers on social media.

Until next month...

*Dwight L. Hulse, CPA/CITP,CGMA*

## Major Life Events May Mean Major Tax Changes

Major life changes can be stressful, not least because they often affect your taxes. The following are just some of the many life events that you'll encounter, along with some tips on how to cut your tax bill or save money.


**Getting married.** Your marital status affects the tax bracket you're in and doubles your standard deduction to $24,800. If you are married and either you or your spouse is 65 or older, your standard deduction increases by $1,350. If both you and your spouse are 65 or older, your standard deduction increases by $2,700.

**Get a bigger benefit:** A spouse who doesn't work can contribute to a spousal IRA if they file taxes jointly with a spouse who does work. If each spouse has an IRA, both can contribute up to $6,000 in 2021 ($7,000 if age 50 or older).

**Getting divorced.** If you have a divorce or separation agreement executed after December 31, 2018, the payer spouse gets stuck with the tax bill, as alimony is no longer deductible from the income of the spouse paying it. On the other side, the spouse receiving the alimony payments doesn't report the payments as income. Child support follows the same equation — it's not deductible by the payer spouse, and doesn't need to be reported as income by the spouse receiving the payments.

**Get a bigger benefit:** If the parents can agree, the spouse with the higher income can claim all or most of any kids in the family. Being able to claim one or more kids on your tax return means being able to file your tax return as Head of Household, which has a larger standard deduction ($18,800 in 2021) than a single taxpayer ($12,550 in 2021). The parent may also qualify for the $2,000 child tax credit for each kid.

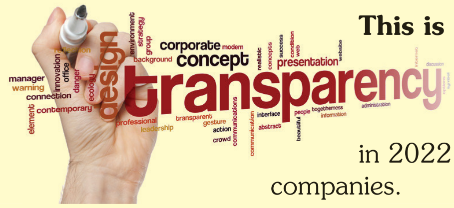
**Birth.** With a new birth comes a new dependent on your return. You may now qualify for credits and deductions that can have an immediate benefit on your tax situation. You also have the option of withdrawing $5,000 per parent (or $10,000 total as a couple) without penalty from qualified retirement accounts to help with costs associated with your new bouncing baby. You'll still owe income taxes on this distribution, but can avoid an early withdrawal penalty.

**Get a bigger benefit:** Parents who work can take a tax credit for expenses related to dependent care for a child under age 13, so a newborn child would qualify. The maximum credit for one child is $1,050; the maximum for two or more children is $2,100.

**Moving.** Be careful if you make a move this year! Moving expenses used to be tax deductible, but that deduction has been suspended through 2026. If you incur any moving expenses, you can't use those expenses to lower your tax bill. While the federal government won't let you deduct moving expenses, you may still be able to claim a deduction on certain state tax returns.

**Get a bigger benefit:** One option is to ask your employer to reimburse you for moving expenses. While this is considered taxable income, some employers will gross up the amount of money they give you to cover the tax hit you'll take. Another option is to do as much of the move yourself as you're able to and try to move, if possible, during a low-demand time of the year.

# Congress Passes Corporate Transparency Act: What It Means for You




In most states, you need to provide more identification to obtain a library card than to form a business entity.

This is no exaggeration. Most states allow you to easily form an anonymous limited liability company (LLC) or corporation without revealing the identities of the people who profit from its existence or control its activities — the "beneficial owners."

**To establish the entity,** all you have to do is have an organizer sign the articles of incorporation, certificate of formation, or other document you need to file with the secretary of state or similar state agency. The organizer can be an attorney, an LLC or corporate formation firm, or another person with no ownership stake in the entity.

**This makes it easy** for people to form anonymous shell LLCs and corporations for nefarious purposes, such as money laundering and various forms of tax evasion. It's likely that many shell LLCs and corporations were formed to obtain fraudulent PPP loans.

**This is about to change.** In January 2021, Congress passed the Corporate Transparency Act (CTA) This new law, which will go into effect starting in 2022, is designed to end anonymous shell companies.

The CTA requires that many U.S. business entities file beneficial ownership information with the U.S. Department of the Treasury's financial intelligence unit, the Financial Crimes Enforcement Network (FinCEN).

For the first time, LLCs and corporations will have to provide ownership information to the federal government.

The CTA does not change state law, which governs how corporations and LLCs are formed and run. But it does create a brand-new federal filing requirement for business entities.

The CTA applies to both new and existing LLCs, corporations, and other business entities. So if you have an entity or are thinking about forming one, you need to know about the CTA requirements.

# Get Your Contractor or Employee Classification Right!


As the pandemic restrictions ease, you may soon begin thinking about bringing back more workers as your business activity picks up. Due to the uncertainty of the economic recovery, however, many businesses are considering adding contractors instead of full-time or part-time employees.

Classifying your workers as independent contractors provides more control over your expenses if the recovery is slower than you anticipated. It also can save in benefit expenses and payroll taxes.

However, you need to tread with caution. If the IRS determines that you misclassified your employees as contractors, you could end up paying all of the employment taxes and benefits that would have been owed to these workers had they been your employees. Depending on the size of your workforce, the cost to your business could be substantial.

In determining whether the person providing a service is an employee or an independent contractor, the IRS will review these three categories that deal with a worker's degree of control and independence:

- **Behavioral.** Does the company control or have the right to control what the worker does and how the worker does his or her job? If yes, the worker is an employee.
- **Financial.** Are the business aspects of the worker's job controlled by the payer? This includes things like how the worker is paid, whether expenses are reimbursed and whether the employer provides tools and supplies. If yes, the worker is an employee.
- **Type of relationship.** Are there written contracts or employee-type benefits? If contracts are involved, the worker may be a contractor. If benefits such as a pension plan, insurance, and vacation pay are made available, the worker most likely is an employee.

It's definitely worth exploring if the workers you welcome to your company can be classified as independent contractors. But deciding whether a worker is a contractor or an employee can get complicated. And there are significant financial consequences for incorrectly classifying a worker.

## *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 dwight@dlhulseconsulting.com. Perhaps I'll feature you in a future issue!

# Turn Captivating Social Media Posts Into Customers

Facebook boasts 1.8 billion daily users. LinkedIn, formerly just a networking site for professionals, has become one of the top social media platforms. Twitter is now the constant companion of politicians, pundits, and consumers. Two billion people watch YouTube videos every month.

Businesses who tap into this vast crowd of potential customers can garner sizable revenues. But as with other business endeavors, learning to profit in this environment takes persistence and know-how.

In the world of social media, content is king. Engage with customers quickly and effectively, and you'll direct their buying decisions toward your products and services. Annoy them, and they'll tell their online friends.

*Follow these guidelines to turn captivating content on your social media site into profitable customers.*

• **Provide value.** Think customer first and always. Give them information that's relevant and timely. Advance their goals with clever or unique insights and forget the hard sell. Remember, your potential audience is bombarded with advertisements every waking minute. Don't add to this bombardment.

• **Craft captivating headlines.** Ask a question in the headline that relates to the content in the post. Or catch the user's eye with clever or humorous wording. Generate interest by focusing on a current trend or news item of concern to your audience and don't pull users into an article with a catchy headline then annoy them with unrelated content.


"This should make us more responsive to customers."

• **Align with your audience.** Make the tone of your article resonate with potential customers by getting to know them and crafting your message accordingly. You might use software tools to gather and analyze data on social media contacts, then use that information to create customer personas, or high-level summaries of target customers. Find out what works and what doesn't.

• **Make it accessible.** Your content should reach all kinds of people. For example, you might use image descriptions to help people with vision impairments or others who struggle to understand the purpose of an image. Use video captions to engage people with hearing loss, consumers who aren't native speakers, or potential buyers who prefer video without audio.

• **Respond quickly.** When you're browsing the aisles at your favorite hardware store and ask a clerk for advice, you appreciate a timely response, don't you? The same holds true with digital communication. When your company follows up right away, customers are more likely to remember their initial comment and feel that you value their feedback. Even a simple and timely thank you shows that you care.

• **Start small.** If you're tiptoeing into the social media arena, take time to learn the pros and cons of each platform in relation to your target demographic. Is your audience using Twitter more than Facebook? Instagram more than LinkedIn? Are most of your sales to young adults or retirees? Hone your efforts toward a target audience as you build a network of followers.

## Quotes:

***"Every problem is a gift – without problems we would not grow." — Tony Robbins***

***"If you're walking down the right path and you're willing to keep walking, eventually you'll make progress." — Barack Obama***

***"What the caterpillar calls the end of the world, the master calls a butterfly." — Richard Bach***

***"Sometimes your joy is the source of your smile, but sometimes your smile can be the source of your joy." — Thich Nhat Hanh***

***"Identify your problems, but give your power and energy to solutions." — Tony Robbins***

## D.L. Hulse Consulting, LLC

**I provide entrepreneurs with clarity and peace of mind for making better business decisions.**

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## See What's Inside...





## What's In Season Now

**Vegetables**

Beetroot, broccoli, artichoke, cardoon, catalogna chicory, carrot, cauliflower, white cabbage, Savoy cabbage, Brussels sprout, chicory, turnip top, spring onion, sauerkraut, watercress, beet top, fennel, endive, lettuce, hops, leek, red radicchi, turnip, radish, scorzonera, scorzobianca, spinach, dandelion, valerianella, and pumpkin.

**Fruits**

Kiwi, orange, tangerine, clementine, lemon, grapefruit, cedar, apple, pear, and dried fruits.

## Multiply Your Net Worth with a SEP IRA or Solo 401(k)

How do you multiply your net worth? Let the government help.


Here's how: with both the SEP IRA and the solo 401(k) retirement plans, your investment in your tax-favored retirement:

- creates tax deductions for the money you invest in the plan,
- grows tax-deferred inside the plan, and
- suffers taxes only when you take the money from the plan.

**Example.** You invest $1,000 a month in your retirement. You are in the 40 percent tax bracket (combined federal and state), and you earn 10 percent on your investments. At the end of 30 years, you have $1.58 million in after-tax spendable cash, which comes from (in round numbers):

- $1.2 million in after-tax cash from the retirement plan ($2 million gross less 40 percent in taxes — we're taking the entire amount out of the plan in this example)
- $380,000 in the side fund (created by investing the $400 of monthly tax savings — $1,000 deduction x 40 percent)

***If you had no government help*** on the taxes and invested $1,000 a month in an investment that earned 10 percent (6 percent after taxes), you would have a little more than $950,000.

**Winner.** The retirement plan wins by $630,000 — after taxes ($1.58 million vs. $950,000).

Okay, that's the big picture. It tells you that tax-advantaged investing multiplies profits. So, do it.