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June 2021

The CFO Advisor

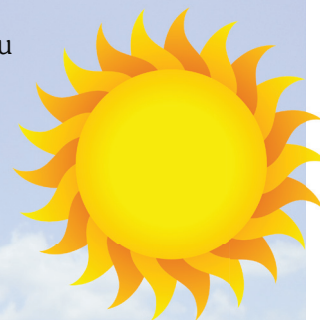
Guidance for Small Business Success™

Welcome to the June 2021 edition of “The CFO Advisor” Newsletter! Can you believe that we are already halfway through the year 2021? In the past year, we have learned how to deal with the effects of the COVID-19 crisis. With each passing day, we continue to adjust, recover, and refocus with a brighter outlook for the future.

We start this month’s newsletter with an article about how higher taxes may be in your future. This is also a reminder of how important tax planning is for yourself. Additionally, read about the art of billing and also about scams.

Until next month...

Dwight L. Hulse, CPA/CITP, CGMA



Higher Taxes May Be In Your Future

There’s little question the tides are moving towards a higher tax environment with multiple trillion dollar spending bills, a new administration, and deficits as far as the eye can see. Instead of feeling helpless, here is a quick look at what might be on the horizon and some thoughts on how to be prepared.

Self-employment tax risk. Social Security and Medicare fund collections took a hit during the pandemic. This is because of high unemployment and new federal benefits allowing employers to receive a credit on these taxes to help continue paying employees to take leave due to COVID-19. Over the next few years, there will be tremendous pressure to add funds back into these programs. This might be done by increasing the taxability of benefits or dramatically increasing the income subject to Social Security taxes.

Potential action: Continue to work on a retirement plan that is not as dependent on Social Security benefits. If you are a small business owner, and your business income is subject to self-employment tax (i.e. SE tax), now is a good time to consider reorganizing your business to shield some of your business income by moving to an S corporation status.

Capital gains tax rate increases. In 2021, the highest long-term capital gains tax rate is 23.8% (i.e. 20% capital gains tax rate plus a 3.8% surtax as part of the Affordable Care Act), but if planned correctly, you could pay either nothing or 15% federal tax on long-term capital gains. Congress could see the sales of long-term securities and other assets as a

valuable source of tax revenue by eliminating this preferential tax rate and instead using ordinary income tax rates (currently as high as 37%).

Potential action: Actively manage investment profits, netting your gains against your losses. If you have any assets that have appreciated over time and intend to sell them in the near future, consider trading in 2021 to avoid a potential increase in the capital gains tax rates.

Estate tax planning problems:

There are several considerations to take into account when looking at your estate’s tax plan. First, under current law, say for example your parents bought one share of stock in 1980 for \$10 and you inherit the share of stock when it’s worth \$100 and immediately sell it for the same \$100. You would not owe any federal taxes on the \$90 difference.

In the future, this feature, called stepped-up cost basis, may become limited or removed to increase tax revenue. Second, the estate tax rate currently set at 40% is under pressure to be increased. This is entirely possible when you consider that this tax rate was 55% in 2001.

Potential action: Consider gifting money or securities to family, friends, or a foundation during your lifetime. Individual gifts in 2021 of \$15,000 or less (\$30,000 for married couples) don’t count against the lifetime gift-giving limit.

Tax rate volatility. With huge federal deficits that are now beyond the scope of imagination, what will happen next? Just



Continued on next page

Higher Taxes

Continued from page 1



the latest legislation adds a whopping \$1.9 trillion to what must be paid back.

While interest rates are being held at historic lows to help lower the cost of this added debt, it cannot continue unabated. And the meteoric rise in home prices is just one of the costs of this low interest approach. The current proposals in Washington suggest an increase in tax rates is not too far in the distant future.

Potential action: Do a forecast of your future income and tax rates. If you think tax rates and your taxable income will be increasing over the next few years, you will want to move as much money as possible into tax-advantaged accounts like Roth IRAs. You should also understand any state tax ramifications to help with your tax planning.

While Congress is debating what to do with your tax rates, now is the time to create a strategy so that if or when tax rates do increase, you will be prepared.

The Art of Bill Paying

Paying bills is an inevitable part of everyday life, but that doesn't mean it has to be stressful. Here are some ways to get control of your budget and perfect the art of stress-free bill paying.

Make a budget. Knowing what you are making and what you are spending is essential to proper bill paying. First, find out how much you are making every month and then subtract the static items such as rent or mortgage payments, credit card payments, and cell phone expenses. Then, budget out how much you will need for other essentials (such as food and clothing). Once the essentials are accounted for, you can look at the money you have left and decide where to allocate the rest.

Find a budget tool that works. Create a tracking system that works for you. There are many to choose from, but your bank may have a free app to track your spending, so that is a good place to start. You can then choose which tools to use to make a budget and categorize the transactions to be allocated to a certain part of the budget (such as food, car, and housing).

Set up autopay. Put recurring bills such as utilities, internet, and your cell phone on autopay so they will be automatically deducted from your account on their due date. If you decide to use autopay, it is still a good idea to look at the amounts being deducted every month to make sure everything is correct.

Consider your non-regular payments. Don't forget to account for bills that come due occasionally and plan for the cash outlay. Common examples of this are property tax payments, income taxes, and annual/semi-annual insurance payments. You will need to plan to have enough cash on hand for these expenses when they come due.

Adjust due dates. Paying bills isn't as stressful when you know that you can afford to pay them, and what better time to pay bills than right after

you get paid! The money will be there and you can pay those bills before that money has a chance to go anywhere else. Consider asking if you can change the due dates for some or all of your bills to correspond with when your paychecks are deposited into your bank account.

Don't forget to pay yourself! One of the best ways to start developing a savings account is making yourself part of your budget! Take however much you think you can spare and set up an automatic transfer to a separate savings account. Use this money to establish an emergency fund of approximately six to nine months of expenses. This extra cushion will come in handy if something unexpected occurs.



Did You Know ?...

According to the *Huffington Post*, James Garfield was the first president to be both right and left handed. It is also said that he could write one sentence in Latin with one hand while writing in Greek with the other.



"Do you think making Henry office manager has gone to his head?"

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!

Give Geniuses An Environment To Love



Companies that want to grow and thrive need creative people. Just hiring a genius won't produce instant innovation, though. You've got to create the right environment. Here are several suggestions for the care and handling of your most creative workers:

- **Give them what they need.** Exercise some patience when managing imaginative and innovative employees. They need time, space, and resources to explore ideas and bring them to life.
- **Don't force them to compete.** A team of brilliantly creative people may not produce the kind of synergy you expect. Instead of generating imaginative ideas, geniuses can clash or withdraw if they feel they have to compete for attention. Put them on teams with capable co-workers who'll support them instead of trying to prove themselves.
- **Set clear goals.** Imagination needs a focus. Tell your creative geniuses (and everyone in your business, really) what you most want to achieve, and coach them in the direction you want to go.

Beware of Fake Invoices and Unordered Office Supplies!

As a small business owner, the best way to protect your company from fraud is to learn the signs of scams that target businesses and share this information with your employees and colleagues.

Here are several types of scams that target small businesses, according to the Federal Trade Commission (FTC).

Fake invoices. Scammers create phony invoices that look like they're for products or services your business uses. A common example of this is domain name registrations. Scammers hope the person who pays your bills will assume the invoices are for things the company actually ordered. Scammers know that when the invoice is for something critical, like keeping your website up and running, you may pay first and ask questions later. Except it's all fake, and if you pay, your money may be gone.

Unordered office supplies and other products. Someone calls to confirm an existing order of office supplies or other merchandise. This person then verifies an address or offers a free catalog or sample. If you confirm the information, unordered merchandise arrives at your doorstep followed by high-pressure demands to pay for it. If you don't pay, the scammer may even play back a tape of the earlier call as proof that the order was placed. According to the FTC, you have the right to keep for free any merchandise you did not order.

Directory listing and advertising scams. Con artists try to fool you into paying for nonexistent advertising or a listing in a nonexistent directory. They may ask you to provide contact information for a

free listing or say the call is simply to confirm your information for an existing order. Later, you'll get a big bill, and the scammers may use details of the earlier call to pressure you to pay.

How to protect your business from fraud

Train your employees. Your best defense is an informed workforce. Explain to your staff how scams happen and share this brochure with them from the FTC.

Verify invoices and payments. Check all invoices closely. Never pay unless you know the bill is for items that were actually ordered and delivered. Tell your staff to do the same.

Beware of unusual payment requests. Pay attention to how someone asks you to pay. Tell your staff to do the same. If you are asked to pay with a wire transfer, reloadable card, or gift card, you can bet it's a scam.

Have clear procedures for approving invoices. To reduce the risk of a costly mistake, limit the number of people who are authorized to place orders and pay invoices. Review your procedures to ensure spending can't be triggered by an unexpected call, email, or invoice.



Quotes: "Yesterday I was clever, so I wanted to change the world. Today I am wise, so I am changing myself." — **Rumi**

"Education is the most powerful weapon which you can use to change the world." — **Nelson Mandela**

"Let us always meet each other with smile, for the smile is the beginning of love." — **Mother Teresa**





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see what's inside...

Higher Taxes May Be In Your Future
Did You Know?
The Art of Bill Paying
Give Geniuses An Environment To Love
Beware of Fake Invoices and Unordered Office Supplies!
Follow These Proven Rules Of Success
A Man, A Dog, And A Bar

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.

FOLLOW THESE PROVEN RULES OF SUCCESS

Successful business people like Sam Walton understand that success is as much a result of treating people with respect as it is of managing costs and inventory. Here are 10 of the key principles Walton followed, as recounted in *Sam Walton: Made in America, My Story*:

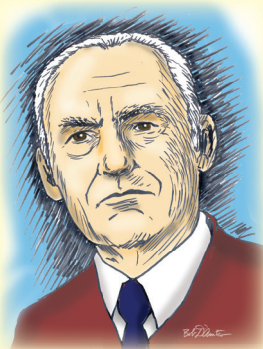
• Believe in what you do.

If you dedicate yourself to work that you love and you are doing the best you can, your enthusiasm will be contagious.

• **Treat your workers like partners.** Share your profits fairly and team up with everyone in your company to perform and excel together.

• **Motivate with more than money.** People respond more powerfully to other incentives. Set ambitious goals, and encourage friendly competition between team members.

• **Communicate everything.** The more your team members know, the more they'll be able to do for the company and the better they'll be able to do it.



Sam Walton

• **Show your appreciation.** There's no replacement for sincere praise, and no more cost-effective motivational tool.

• **Lighten up.** Don't take yourself too seriously. Take some time to have fun and let others have fun along with you.

• **Listen to your partners.** Look for ways to

encourage your employees to talk to you. You can learn everything about improving your business that you need to know from the workers on the front lines who deal directly with customers.

• **Surprise your customers.** Give them something extra to show your appreciation for their business. Listen to their complaints and correct them promptly and cheerfully. Guaranteeing and delivering satisfaction will keep people coming back.

• **Watch your expenses.** You can overcome almost any setback if you're using your money efficiently and not wasting any.

• **March to your own beat.** Don't follow conventional wisdom.

A Man, A Dog, And A Bar

A man walked into a bar with his dog. The bartender took one look at the two of them and said, "You can't bring that dog in here!" The guy, without missing a beat, replied, "This is my seeing-eye dog." "Oh," the bartender said, embarrassed. "I'm sorry. Here, the first one's on me." And he gave the man a drink.

A few minutes later another man entered the bar with a Chihuahua. The bartender frowned, suspicious. "Hey, you can't bring that dog in here!"

The second man said, "But this is my seeing-eye dog."

The bartender said, "I don't think so. They don't use Chihuahuas as seeing-eye dogs."

The second man paused for a half-second and then said, "What? They gave me a Chihuahua?"

