



Dwight L. Hulse, MBA, CPA/CITP, CGMA, CA (BZ)

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# The CFO Advisor

## Guidance for Small Business Success™



Welcome to the October 2021 edition of “The CFO Advisor” Newsletter. We’re looking forward to seeing the leaves change color, and the brisk touch of fall. As always, our newsletter is jam-packed with informative and inspirational content, so sit back, relax, and enjoy this month’s issue.

We begin with some specific advice regarding scheduling your tax planning session. We offer some good advice about borrowing from your own business, and a look at how some states are coming after your taxes in new ways. As inflation surrounds us all, we offer an in-depth, strategic look at it.

We continue with tips on preventing theft, of both your physical valuables, as well as your cyber valuables.

Until next month...

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

## Time to Schedule Your Tax Planning Session

Now is the time to schedule a tax planning appointment. If you are on the fence, here are some things to consider:

**It can make a difference.** This is especially true if you have a major event that occurs during the year. For example:

- **Selling a house?** You can avoid taxes if the primary residence requirements are met.
- **Starting a business?** Choosing the correct entity can lower your taxes every year!
- **Getting ready to retire?** Properly balancing the different revenue streams (e.g. part-time wages, Social Security benefits, IRA distributions, and more) has a huge impact on your tax liability.

Even in uneventful years, external forces like new tax laws can be managed if planned for in advance.

**Put yourself in control.** Timing is important when it comes to minimizing taxes, and the timing is often in your control. For instance, bundling multiple years of charitable contributions into one year can create an opportunity to itemize deductions. Plus holding investments for longer than one year to get a lower tax rate, and making efficient retirement withdrawals are other examples of prudent tax strategies that you control.

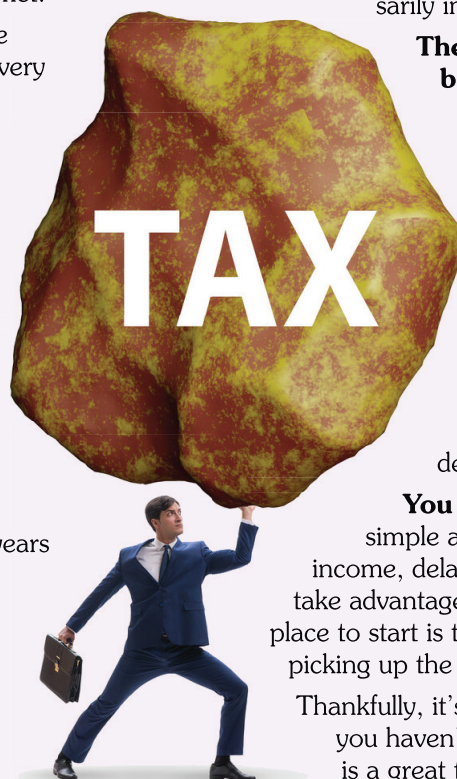
**There are tax planning opportunities for every level of income.** There are tax strategies to be implemented at all income levels, not just those at the top of the tax bracket. Tax deductions are available for student loan interest, IRA contributions, and others even if you claim the standard deduction. Certain tax credits (called refundable credits) will increase your refund even if you don’t owe taxes. Missing any of these tax breaks can unnecessarily increase your taxes.

### There may still be COVID tax

**breaks.** While it’s true that many one-time tax breaks were offered for only the 2020 tax year, there are still plenty of COVID tax breaks available in 2021. Some of these tax breaks include an expanded child tax credit, an increased child and dependent care credit, the ability to roll forward unused funds in your Flexible Spending Account, and charitable deductions that are available to all taxpayers, even if you don’t itemize your deductions.

**You have help.** Tax planning is often as simple as looking for ways to reduce taxable income, delay a tax bill, increase tax deductions, and take advantage of all available tax credits. The best place to start is to bolster your level of tax knowledge by picking up the phone and asking for assistance.

Thankfully, it’s not too late to get on track for 2021. If you haven’t scheduled a tax planning session, now is a great time to do so with your tax specialist.





## Be Careful When Borrowing Money From Your Business



One benefit of owning your own business is being able to borrow money from it. But it's critical that you properly borrow the money, or you could end up with a surprise from Uncle Sam. Here's how to prevent a business loan from potentially turning into an unexpected tax bill.

### The problem

The IRS likes to see business owners who dot all their i's and cross all their t's. For owners who borrow money from their business, the IRS wants to see evidence that the borrowed money is an actual loan. If the IRS selects your tax return for an audit and can't find this evidence, it may decide to treat the money as taxable wages or dividends instead of a loan.

### What you can do

To avoid a possible dispute with the IRS regarding loans you take from your business, consider the following:

- Document the cash withdrawal as a loan and draft a legally enforceable promissory note.
- If you're a corporation, be sure your documentation includes the authorizing of the loan in your minutes.
- The promissory note should include interest that will be charged. Consider using the federal interest rate at a minimum.
- Record the transaction as a loan in your business' accounting system.
- Consider strict enforcement of repayment per the terms in the promissory note.

If you've paid attention to the details, your loan should withstand IRS scrutiny. Please contact your tax specialist if you'd like more information about borrowing money from your business.

### 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.



## STATE TAXING AUTHORITIES ARE COMING AFTER YOUR MONEY

*L*aws have been created that snag taxpayers everywhere.

New state tax laws are making more and more taxpayers tax cheats without them realizing it is happening. Think it can't happen to you? Here are some examples.

- Your small business registers for sales tax in Texas and you receive a letter from some obscure Texas town that says you need to send them a registration fee. Where did this come from?
- A Florida widower with income marries a retired woman who lived in Utah for nine months. The woman has no income. He has never been to Utah, even to visit. Per Utah tax law he must now pay income tax to Utah on his Florida income if he files a joint federal tax return.
- A Delaware resident owes Minnesota income tax for consulting work even though she never steps foot in Minnesota. This is because the company who the Delaware resident did work for has a physical presence in Minnesota. The same situation is true in California and other states.
- You decide to retire in Nevada to enjoy the sunshine. You then receive an audit letter from New York that says you need to pay them income tax, even though you no longer live there. They demand credit card statements, your driver's license, and more. You provide the information, yet their demands do not go away.
- California routinely sends out notices to small businesses throughout the country demanding detailed sales transactions for multiple years for any of their California customers' transactions. If you do not reply, you could be in for an audit from this state.
- States are creating business fees to capture taxes from out-of-state small businesses. This is to get around national laws that protect interstate commerce. This new category of tax is in addition to income taxes and sales/use taxes.



Until national leadership provides unified interstate guidance, states will continue to get more aggressive with the creation of new tax laws. This is more prevalent as states continue to deal with lost revenue due to the pandemic. There are even situations where two states can claim tax on the same income and you are stuck in the middle facing double taxation and tax penalties.

This ever-changing landscape requires an annual review. This is especially true if you plan to move in the near future.

### 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](mailto:dwight@dlhulseconsulting.com). Perhaps I'll feature you in a future issue!





# IT'S BACK! INFLATION IS AMONG US

## How to shield your money from inflation

Recent high inflation rates are driving up the price for almost everything and eroding the value of your money. With varying opinions on the potential duration of the current inflation surge, it's important to understand the causes and how you can protect your money.

### Possible causes of this inflation

While the root causes of inflation are not always easy to identify, the premise is simple — prices are going up for goods and services. This is often because demand is higher than supply. Here are some of the basic drivers of today's inflation.

- The demand-pull situation. Demand for a product increases but the supply remains the same. Think of a vendor selling ponchos at a state fair. If it rains, demand is going to spike and fair-goers are willing to pay up to keep dry. This situation is rampant during the pandemic, as we all see runs on things like toilet paper and hand sanitizer. And now we are seeing pent-up demand being released, as some of the pandemic restrictions are eased. An example of this is popular vacation locations being all booked in advance.
- The cost-push situation. Demand stays constant but supply is reduced. An example of this is a lower-yield crop season when a major drought hits a region. Consumers still want their dinner salads, but lettuce is sparse. So retailers charge more to cover their increased costs. Or when paper mills switched production to handle higher toilet paper demand, pulp used for paper and packaging had supply reductions creating a shortage which increased their prices.
- Factoring in the money supply. The more money there is available to spend (high money supply), the more the demand on all goods and services goes up. This is being manifested in wage increases as



employers are having a hard time filling jobs and is also the result of many of the government spending programs during the pandemic.

### Ideas to protect yourself during high inflation

Alternative savings that is NOT cash. The value of your money sitting in your wallet or in low interest bank accounts is shrinking before your eyes. The past year has seen the highest inflation rates in the last decade at 5.4%, according to the Consumer Price Index. That means if your savings account is earning 0.6%, you've lost 4.8% in purchasing power over the last 12 months. Get your money to work for you by considering:

- Low risk, dividend-paying stocks.
- CDs, bonds, and other investments with various maturities to prepare for higher rates.
- Direct lending vehicles through vetted, respected facilitators.
- Investing directly in property, small businesses or other tangible assets.
- Invest in yourself to learn a new trade or skill.

**Lock in fixed rates on debt.** Inflation can be your friend if you have a low interest, fixed-rate loan. For example, inflation will tend to increase the value of your house over time, yet your monthly payment will remain the same. So borrowing money at a low fixed interest rate, while the underlying property value increases with inflation, can be a strategy to consider.

**Delay large expenditures.** Do your part to reduce demand by postponing large purchases. Consider delaying the purchase of a new car, adding to your home, or taking an overseas trip until demand flattens and prices come back to a normal rate.

It's impossible to avoid the effects of high inflation altogether, but with some smart investing and the will-power to temporarily curb spending, you can reduce inflation's impact on your personal bottom line.



**Quotes:** 'Tis better to have loved and lost than never to have loved at all.' — Alfred Lord Tennyson  
"Hope is being able to see that there is light despite all of the darkness." — Desmond Tutu.

"I have reached an age when, if someone tells me to wear socks, I don't have to." — Albert Einstein





## D.L. Hulse Consulting, LLC

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

P.O. Box 357778, Gainesville, FL 32635-7778

www.dlhulseconsulting.com

Phone: (352) 450-2880

Email: dwight@dlhulseconsulting.com

### See What's Inside...

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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.*

## The Perfect Solution

How do you address dilemmas in your life? Is there a way to find a solution to two conflicting problems?



An employer once offered the following scenario to some candidates for an important job:

*"You are driving along in your car on a wild, stormy night. You pass by a bus stop, and you see three people waiting for the bus: One is an old woman who's obviously very ill; another is a close friend who once saved your life; the third is the perfect mate you've been looking for your whole life. What do you do?"*

The options are obvious: You could pick up the old woman and possibly save her life; you could offer a ride to your friend to repay him (or her) for once having saved you; or you could invite your perfect mate because you may never find him or her again.

The best candidate gave this answer: *"I would give the car keys to my friend and ask him take the old woman to the hospital. Then I'd stay behind and wait for the bus with the woman of my dreams."*

## Be Prepared If A Theft Does Occur

Unfortunately, thieves can still sometimes steal your valuables despite multiple layers of protection. Here are some suggestions to prepare you if any of your valuables go missing:

**Be familiar with your insurance policy.** Read your insurance policy to know what items are covered. Review your policy once a year or whenever you acquire another valuable asset.

**Get an appraisal.** It may be difficult to know how much insurance you need without a proper valuation of your assets. Some assets may be worth much more than you think, while other assets may be difficult to pinpoint a value without professional assistance.

**Keep a home inventory.** Create a list of all your valuables that includes photographs and purchase receipts. If an asset is stolen, having this inventory always up-to-date can help quickly jump-start filing an insurance claim.



## Protect Your Web Browsing

Companies love to keep tabs on your browsing habits. And it is not just limited to their own sites. They might spy on ALL your activity. They see every website you visit, monitor all your clicks, and track all social media likes and videos you view. They then use this information to determine what you see and read. In short, they control your world view, both in content and in what ads you see.

### Actions:

- Actively use ad blockers such as Adblock and uBlock.
- Turn off cookies and periodically empty your cache.
- Avoid downloading any and all extensions unless absolutely required.