LET'S TALK MONEY®

November/December 2020

Business Continuity Planning

No one knows what the next business-threating crisis is going to be. But there are steps you can take in advance to help protect your business so it can survive, and continue to support you, your employees and their families.

Continuity Planning - Make sure everyone knows their role. Designate someone to be responsible for each critical area.

Communicate Often - Your appointed communications director will handle the press, ensure the website is kept current and provide information to employees, customers and other stakeholders.

Maintain Data Backup Processes - Make sure daily backups are stored off site, in the cloud or both.

Rehearse - Walk your team through security, data recovery, relocation and other plans once per year.

Consider Supply Chain Risk - Ensure your critical vendors are also planning for the unexpected. Plan for alternative resources.

Document - Every task that has to be done should be documented in a way so that even a junior employee can take charge and execute, if necessary.

Update Contact Information - Be sure you always have current and complete contact information for employees, vendors and other key people and store it offsite.

Conduct an Insurance Audit Annually - This process determines how much coverage you need and what type.

Business Interruption Insurance - Consider this coverage which provides cash flow so you can pay bills, payroll and pay other expenses incurred due to a disaster or other covered event. (Many policies exclude a pandemic.)

Life Insurance - Life insurance can provide liquidity and help fund a buy-sell agreement among the partners, so that they can easily buy a deceased partners' interest in the company from the heirs.

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I am committed to helping my clients achieve their financial goals for themselves, their families and their businesses by providing them with strategies for asset accumulation, preservation and transfer.

Small Business Version

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Bunching Deductions

As the year draws near a close, it is time to see if there are any moves you can make that will help reduce your annual income tax bill. The Tax Cuts and Jobs Act, passed in late 2017, complicated the matter of taking deductions, but there are some helpful options if you plan ahead.

The Obstacle

The Tax Cuts and Jobs Act doubled the standard deduction. For tax year 2020, it's now $12,400 for single filers and $24,800 for married filers. That affected many people who had few deductions because they are better off taking the standard deduction.

A Possible Solution

That's where bunching deductions comes in. Here's generally how it works: By paying two years' worth of qualifying deductible expenditures before year's end you may be able to exceed the standard deduction and deduct those expenses on your 2020 return. Then next year, take the standard deduction. Alternatively, you can push deductions into next year and take the standard deduction this year.

What Deductions Qualify?

Some examples of deductions that you could bunch include:

Charitable Giving - Rather than making your usual contribution every year, it may make more sense to make a double contribution every other year – or a triple contribution every third year. That way, you aren't effectively taxed on your charitable deductions.

Medical Expenses - If your medical expenses are in excess of 10% of your adjusted gross income, you can deduct them. So, it may make sense to schedule that elective surgery you had planned before year's end—or next year, if you expect higher medical expenses.

Property Taxes - If this year looks to be a high earning year, you could pre-pay property taxes that have actually been assessed, but this deduction is also now capped at $10,000. If moving to a new state, shift deductions to the higher-tax state.

This is a simplified list of potential deductions. Talk to your tax and financial professionals to see how bunching deductions may help you to maximize your tax breaks.

Safe Deposit Box Tips

Safe deposit boxes are one way to keep valuable documents and other items safe offsite.

Here are some items you might consider keeping in your safe deposit box:

- Deed and title documents
- Paper stock and bond certificates
- Vaccination records
- Birth and adoption certificates
- Marriage and death certificates
- DD-214s and other military records
- Precious metals
- Social Security cards

What *not* to keep in a safe deposit box:

- Original copy of your will
- Cash (no FDIC protection)
- Advance directive and power of attorney documents
- Drugs
- Firearms and ammunition
- Hazardous chemicals

Even though safe deposit boxes are usually in banks, the FDIC does not insure the contents. You may be able to purchase insurance separate, or add the items to your homeowners insurance policy.

Increased Charitable Giving Incentives

During the COVID-19 pandemic, Congress recognized the need to boost charitable contributions. So, they included a section in the CARES Act to encourage Americans to open their wallets to those in need.

Their solution: A $300 "above the line" deduction. That means you can deduct up to $300 for cash donations to qualified charities – and you don't have to itemize your expenses to do it.

This $300 deduction does not apply to contributions to donor advised funds. Nor does it apply to contributions of anything other than cash.

The CARES Act also raised the allowable limit on itemized cash donation deductions for charities from 60% to 100% of adjusted gross income. That means that you can actually donate up to an entire year's AGI to charity, if you want – as long as you do it in cash.

Widowed Parents and Taxes

Life can be turned upside down in a minute. A sudden car accident could result in someone becoming a widow(er). That type of event changes everything, including your tax filing status. It is especially difficult for parents of minor children. Here's a brief overview of what any recently-widowed parent should know.

Filing Status

You may retain the married filing jointly status for the year in which your spouse died, even if you filed separately. This is important, because it lets you keep a much higher standard deduction, which is $24,800 in 2020.

After that, you may be able to file as *qualifying widow(er) with a dependent child* status for up to two years. This would allow you to retain the same standard deduction as married filing jointly.

Who Qualifies?

Here are some general requirements for filing as a qualifying widow(er) with a dependent child:

- You must have qualified for married filing jointly status in the year of your spouse's death;

- You have a dependent child, stepchild, or adopted child (not foster child) living with you, or temporarily at school, and you pay over 50% of the costs of your home;

- You have not remarried. Remarriage in the same year as a death would require the widow(er) to file as either married filing jointly with their new spouse or married filing separately. With either, a married filing separately tax return would need to be filed for the deceased spouse.

Tax tips for Recently Widowed

1. Claim Your Tax Refund
You may be entitled to your deceased spouse's tax refund.

2. File as a Head of Household
If you were able to file as a qualifying widow(er) for two years you'll have to change your tax filing status in year three. If you are providing support to a child, grandchild, sibling or other relative, you may qualify for head of household status. This is normally preferable to filing as a single taxpayer.

3. Sell Your Home
If you have a highly appreciated marital home, consider selling it within two years. This preserves a much larger $500,000 capital gains exclusion than the $250,000 exclusion available to single filers.

4. Assess Life Insurance Needs
Your life insurance needs may have changed. Meet with your financial professional to review your new situation.

5. Social Security
If you were both taking a Social Security income benefit at the time of your spouse's passing, you will now only be receiving one of those benefits. However, the new benefit should be the larger of the two. Many people compensate for the loss of one monthly Social Security check by taking out more from retirement accounts. But this could trigger tax on up to 85% of your Social Security benefits. Non-taxable income from Roth IRAs doesn't count against you when calculating taxes on Social Security benefits.

Year-End Tax Tips for Business Owners

As the year draws to a close, it's time to maximize your current year tax deductions and other tax planning opportunities. Here's a brief checklist of moves you can make now to help reduce current or future tax exposure.

Pre-pay Business Expenses

You may be able to reduce your 2020 tax bill by pre-paying certain 2021 business expenses before year's end. For example, you can renew subscriptions, pay ahead for advertising, business insurance premiums, rent, business licenses, and other items that don't extend more than 12 months. Some other year end moves that can save taxes include:

Maintenance

Repair broken equipment and physical plant items by the end of the year.

Invest in Equipment

Buy business equipment and get it into service by year's end. The Tax Cuts and Jobs Act (TCJA) allows businesses to take first-year deductions on capital equipment purchases of up to $1 million. This includes vehicles and trucks over 6,000 pounds.

Maximize QBI Deductions

If you meet certain income limits, owners of S corporations, partnerships and sole proprietorships may deduct up to 20% of qualified business income (QBI). For tax year 2020, eligibility for the deduction begins to phase out at income levels of $163,300 for single filers and $326,600 for joint filers.* If you're over the income threshold for 2020, consider finding some more deductions.

Contribute to Retirement Accounts

Make matching contributions to employee 401(k)s.

Contribute to Health Savings Accounts (HSAs)

Employer contributions to employee HSAs, including your own, are deductible to the employer.

Deduct Losses

The CARES Act made it easier to take deductions for losses in 2018, 2019 and 2020, to help improve cash flow for struggling businesses. See your tax professional for details.

Give to Charity

Even donated equipment, computers or inventory may provide a useful year-end tax deduction.

Above all, be pro-active. Book your appointment with your tax professional well before the end of the year, so you don't have to scramble.

Exceptions apply for certain service businesses.

We Value Your Input...

Your feedback is very important to us. If you have any questions about any of the subjects covered here, or suggestions for future issues, please don't hesitate to call. You'll find our number on the front of this newsletter. It's always a pleasure to hear from you.

Financial Industry Regulatory Authority

ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

July 24, 2020

Reference: **FR2020-0701-0090/E**
Link Reference : FR2020-0420-0308

Org Id: 23568

1. Lets Talk Money Newsletter Nov - Dec 2020 Business

   Rule: FIN 2210

The communication submitted appears consistent with applicable standards.

Reviewed by,

Natlyn D. Murrain
Associate Principal Analyst

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