

LET'S TALK MONEY[®]

January/February 2023

Preventing and Surviving a Tax Audit

Recognizing the most common audit triggers may help you avoid them. But, if your business is selected for an audit, having all your information organized, with help from your tax advisor, can get you through it.

Red Flags

The following are frequently triggers:

- ❖ Not reporting all your income, especially if you receive cash payments.
- ❖ Failing to comply with employment taxes. You're responsible for paying your share of FICA and Medicare taxes on your employees' wages, in addition to withholding the employee's portion of these taxes.
- ❖ Mixing business and personal expense deductions.
- ❖ Claiming losses or not showing a profit year after year. Failing to ever report a profit means the IRS may question whether you really have a business. Without profit, your business may be classified as a hobby.

Survival Gear

Organization is the key to surviving an audit. It starts with keeping accurate and complete records.

- ❖ Business expenses must be common in your industry and necessary to run your business. Examples include office supplies, computer equipment, printer paper and similar items.
- ❖ Track cash flow, income and expenses. Consider using apps to upload receipts, keep track of mileage, and generate reports.
- ❖ Make sure you have supporting documentation, including cash register tapes, deposit information for cash and credit sales, invoices, receipts, canceled checks, proof of electronic fund transfers (EFTs), and account statements.
- ❖ Open a checking account and credit card strictly for your business.

Be prepared: During an audit, the IRS will want to see bank statements, a balance sheet, income statement, tax returns, loan and lease agreements, and proofs of purchase for equipment and assets. Your tax advisor can help you assemble the necessary documentation.



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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.



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Small Business Version

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helping financial professionals stay connected

Steer Clear of Money-wasting Traps

You work hard for your money, so you don't want to spend it frivolously. Keep control of your finances by avoiding traps like these that can waste your cash.

Bank Fees

Monthly service fees and out-of-network ATM charges can cost you money each month. Switch to a financial institution that offers free checking and reimburses ATM charges.

Free Trials

Subscription services for music, TV, etc., may offer you a limited-time free trial, which you'll generally have to secure with a credit card. Make sure you know what the cost will be once the trial ends and how to contact the company if you want to cancel.

Extended Warranties

The downside of these plans includes their typically high cost

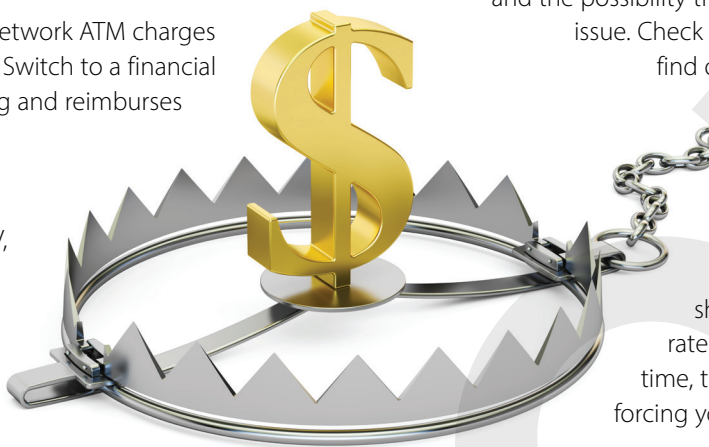
and the possibility that the warranty won't cover your issue. Check with your credit card company to find out if your card includes warranty coverage for purchases charged to your card.

Cash Advance Loans

Payday lenders lend you a portion of your upcoming paycheck as a short-term loan at a high interest rate. If you fail to repay the loan on time, the lender may add on high fees, forcing you to borrow even more.

Investment Scams

Someone you don't know calls you or sends an email about an investment opportunity that you have to jump on right away, so you don't miss out. Hang up or delete the message.



Budgeting During Uncertain Times

The economy has been on an uncertain path lately. More and more people earn income that varies each month due to fluctuating work hours or multiple part-time jobs, making budgeting a difficult task. Still, you can start the new year off right by improving your money management skills, even when your monthly income is uncertain.

Add up your fixed expenses. Include food, mortgage, or rent, utilities, transportation, and health insurance. The total is the minimum amount you need to earn each month to live on.

Save extra cash.

Set aside any money that is over the basic amount you need to live on in a savings account. If you won't need the money for several months, consider putting it in a money market account, which typically earns a higher rate of interest than a savings account.

Look ahead. If you discover you won't

have enough income in the near future, look for ways to get ahead of the shortfall. Picking up extra hours at a part-time job or volunteering for overtime may put you in a better place financially.



Avoid overspending. It might be tempting to spend more in the months when you have extra cash but doing so could put you right back in deficit territory. It's okay to treat yourself within limits but put the bulk of your money into your savings account.

Start a side hustle. Turning a hobby into a business can bring in extra income. Apply to sell your items at flea markets and craft fairs held at local schools or churches. Or get together with friends and hold a sale in your home.

Make Your Mortgage Easier to Live With

The upside to owning a house is you're building equity. The downside is the substantial amount of interest you'll pay over the life of the loan. Finding a way to reduce that amount is a smart financial move.

Just Getting Started?

Shop around for a lender with the lowest interest rate. You'll pay far less in interest on a 15-year mortgage than a 30-year loan. And a substantial down payment means you'll have to borrow less.



Already a Homeowner?

You may be able to save interest by putting additional money toward the loan principal each month, allowing you to pay off your mortgage faster. But check with your lender first to make sure that there will not be any pre-payment penalties.

Steps to Take First

Before employing either of these strategies, make sure your financial house is in order.

- ❖ Pay off all other debts, including personal loans and credit card balances.
- ❖ Save at least three-to-six months' worth of living expenses in an emergency fund account that you can easily access without paying a penalty.
- ❖ Contribute a minimum of 15% of your income to an employer's retirement plan or an individual retirement account (IRA).

Power Surges: Are You Protected?

The lights flicker off, and your computer screen goes blank. When the lights come back on, your computer doesn't. A power surge could be the reason.

Power surges are sudden spikes in electrical voltage. They're often caused by lightning strikes or bad weather that knocks out power. A surge can come through cable TV, a satellite dish, telephone lines, or electrical service lines. It can instantly overload and short out the circuitry of electronics, such as air conditioners, televisions, computers, cell phones, and appliances.

In-home Protection

You can install devices that may help protect against power surges. Special electrical outlets and point-of-use power strips that offer surge protection can prevent damage to electronics. Another option is a service entrance surge protector that mounts on your home's main electrical panel or at the base of your electrical meter.

Insurance Can Help

Homeowners insurance typically covers the cost of replacing an electrical or electronic device that is damaged by a power surge. Check your policy for coverage details.

Top Reasons for Power Outage Increases

Power outages have been steadily increasing in the U.S., both in frequency and duration. According to the U.S. Energy Information Administration, electricity customers experienced slightly more than eight hours of power interruptions in 2020, up from 3.5 hours in 2013, the first year that data was collected.

CAUSES OF POWER OUTAGES



Aging Equipment



High Energy Demand



Major Weather Events and Natural Disasters



Animal/Bird Interference



Vehicle Accidents

ADA Compliance May Prevent Lawsuits

As the owner of a small business, you may have a legal obligation to comply with the Americans with Disabilities Act. The ADA prohibits discrimination against people with disabilities in several areas, including employment, transportation, public accommodations, communications and access to state and local government programs and services.

An Extensive Reach

Although you might think of ADA accommodations as affecting mainly employees and job applicants, they also may apply to customers of your business. Title III of the ADA covers businesses that are generally open to the public and fall into one of several categories, including restaurants, movie theaters, schools, day care facilities, recreation facilities, inns and hotels, transportation, stores, care providers, and places of public displays. If you're noncompliant in any of the areas covered by the ADA, you could find yourself at the center of a lawsuit.

Areas of Concern

Any business that provides goods and services must comply with the ADA. As a businessowner, you should become aware of potential barriers to disabled access. Barriers might include:

- ❖ Parking spaces that are too narrow to accommodate wheelchairs, lifts, etc., and restrict a disabled person from exiting and entering a vehicle.
- ❖ Stairs to access entrances, with no ramps provided.
- ❖ Narrow aisles and doorways.
- ❖ Drinking fountains with low clearance.
- ❖ High counters.
- ❖ Fixed tables and chairs.
- ❖ Restrooms that aren't wheelchair accessible.
- ❖ Websites that don't support screen reader software.



Insurance Offers Some Protection

Failure to comply with ADA requirements leaves you vulnerable to a lawsuit if your business doesn't allow for disabled access. Compliance claims can appear with little warning and no opportunity to resolve the issue before the complaint is filed. They may not even be the result of a specific complaint.

Claims can be costly to defend and comply with. Employment Practice Liability Insurance (EPLI) is a general liability policy that protects employers against allegations of discrimination by a customer or an employee. It's designed to help cover the costs of defending the business in court.

Your insurance professional can provide solutions that may help shield your business from financial loss.

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ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

October 25, 2022

Reference: **FR2022-1010-0102/E**

Link Reference: FR2022-0726-0127

Org Id: 23568

1. LTM Business Jan-Feb 2023
Rule: FIN 2210

The communication submitted appears consistent with applicable standards.

Reviewed by,

Jeffrey R. Salisbury
Principal Analyst

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