

Monthly Newsletter - September 2021

In This Issue

- Give Your Business an End-of-Summer Check-up
- Inflation – an Overview of the Basics
- The Busy Business Owner: Get Back 15 Minutes a Day
- Even Non-Income Tax States Have Taxes

Important Dates & Deadlines to Note

September 15

- ❖ Filing deadline for extended 2020 calendar-year S corporation and partnership tax returns
- ❖ 3rd quarter installment of 2021 estimated income tax is due for individuals, calendar-year corporations and calendar-year trusts & estates

October 15

- ❖ Filing deadline for extended 2020 individual and C corporation tax returns

Give Your Business an End-of-Summer Check-up

As summer winds down, your business's financial statements may be due for a quick check-up. Here are several review suggestions to help determine the health of your business prior to year-end.

- **Balance sheet reconciliations.** Reconcile each asset and liability account every quarter. A well-supported balance sheet can guide decisions about cash reserves, debt financing, inventory management, receivables, payables, and property. Regular monitoring can highlight vulnerabilities, providing time for corrective action.
- **Debt service coverage.** Do you have enough cash to adequately handle principal and interest payments? Calculate your cash flow to ensure you can handle both current and future monthly loan payments.
- **Projected revenue.** Take a look at your income statements and see how your revenue has performed so far this year versus what you thought your revenue was going to be. If revenue varies from what you expect, get with your sales and marketing team to pinpoint what has gone better, or worse, than expected.
- **Projected expenses.** Put a stop to disappearing cash by conducting a variance analysis of your expenses. What did you expect to spend so far in 2021 on salaries and wages compared to what you actually paid your employees? What about other big expenses like rent or insurance? Take the amount of money actually spent so far in 2021 in each of your major expense accounts and compare it to your spending forecast. Then create an updated forecast for the balance of the year.

A review of your financial statements now will help you be prepared if you need to navigate an obstacle or capitalize on potential opportunities to expand your business.

Please call if you have any questions on how to dig deeper in your analysis of your business's financial statements.

Inflation – An Overview of the Basics

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 (CPI). 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.

The Busy Business Owner: Get Back 15 Minutes a Day

Meetings, phone calls, emails, text messages, and water cooler conversations with your employees constantly bombard you as a business owner. Freeing up even just another 15 minutes a day could dramatically improve both your workflow and peace of mind.

Here are some suggestions for getting back 15 minutes every day:

- **Use your phone.** Whenever possible, use your phone instead of an email. Oftentimes talking with someone directly is more efficient than spending the time to compose an email. Plus, email chains can fill your inbox and require precious minutes to read and decipher. Using the phone can also help avoid potential misunderstandings, as a person's tone of voice conveys information that may be lost or misinterpreted when shared via a written message.
- **Be brief with emails.** Tech entrepreneurs Mark Cuban and Jeff Bezos are known for their brief emails that consist of only a couple words. In situations where you do use email, consider crafting a response that is only several words in length. And remember the golden rule of emails: send fewer emails to receive fewer emails.
- **Plan your meetings.** Face-to-face time with colleagues, vendors, and customers is often productive and essential for growing a business. On the other hand, meetings can be a huge waste of time if not properly planned. Establish clear goals for a meeting in advance so your team can focus on priorities and get back to work.
- **Minimize distractions.** Business owners enjoy developing a rapport with their employees. These personal conversations, however, need to have boundaries so that both you and your employee can stay on task. Tell your team if there's a day you don't have time for small talk. Consider putting an old-fashioned **Do Not Disturb** sign on your door when you need to get things done.
- **Delegate when possible.** If you're a small business owner who built a company from scratch, you may be reluctant to relinquish control over day-to-day operations. But failure to delegate can sap time from more important tasks like planning, building relationships with key vendors, and growing your customer base. So, develop a plan to train your employees to assume more responsibility over time.

Fifteen minutes may not seem like much, but a busy business owner can work wonders with just a little more time every day.

Even Non-Income Tax States Have Taxes

With the increased popularity of working-at-home, you may consider moving to one of the nine states that don't impose an individual income tax. Before doing so, you should understand how each of these states raises its revenue. And then consider how you can reduce your tax obligation in your current home state.

Here's some help.

According to Kiplinger and the Tax Foundation, here is how the nine states that collect no individual income taxes collect money from their residents.

Alaska

- Alaska is one of five states with no sales tax, but local jurisdictions may impose sales taxes, with rates reaching 7.5%. The average is 1.76%.
- The median property tax rate is \$1,182 per \$100,000 of assessed home value, slightly above the national average.

Florida

- The statewide sales tax is 6%, but local jurisdictions can add up to 2.5%, with an average combined rate of 7.08%.
- The median property tax rate is \$830 per \$100,000 of assessed home value, a middle-of-the-road figure nationally.

Nevada

- The state sales tax rate is 6.85% while local jurisdictions can add up to 1.53%. The average combined rate is a lofty 8.23%.
- The median property tax rate is \$533 per \$100,000 of assessed home value, one of the lowest in the country.

New Hampshire

- Besides no state income tax, this tax haven has no state or local sales taxes.
- Property tax is the main revenue source. The median property tax rate is \$2,050 per \$100,000 of assessed home value, the third-highest rate in the U.S.

South Dakota

- The 4.5% state tax may increase to an average combined rate of 6.4%, below the national average.
- The median property tax rate is \$1,219 per \$100,000 of assessed home value, above the national average.

Tennessee

- Tennessee previously had an income tax on dividends and interest, but it disappeared after 2020. The current 7% state sales tax rate may be combined with a 2.75% on sales of single items for an overall maximum rate of 9.55%, the highest in the U.S.
- The median property tax rate is \$636 per \$100,000 of assessed home value, below the national average.

Texas

- The sales tax in the Lone Star state is 6.25%, plus local jurisdictions can add up to 2%, with an average combined rate of 8.19%, which is well above the national average.
- The median property tax rate is \$1,692 per \$100,000 of assessed home value, which is a tie for the seventh-highest rate in the country.

Washington

- Municipalities can increase the 6.5% state levy by 4% for an average combined rate of 9.23%, the fourth-highest in the nation.
- The median property tax rate is \$929 per \$100,000 of assessed home value. This is middle of the pack.
- Unlike the other eight states, Washington has an estate tax, with a \$2.193 million exemption (indexed for inflation). Tax rates range from 10% to 20%.

Wyoming

- The 4% sales tax may be increased by municipalities for a combined rate of 5.33%. This is the eighth-lowest in the U.S.
- The median property tax rate is \$575 per \$100,000 of assessed home value, tied for the tenth-lowest in the nation.

Here are some ideas to lower your property and sales tax bills:

- ✓ **Appeal your property's valuation assessment.** You may be able to lower your property tax bill by providing evidence that your home's assessed value should be lower. Start your appeals process by contacting your county assessor's office. Some appeals can be done online, while others may require a visit to your assessor's local office.
- ✓ **Shop during tax-free weekends.** Many states feature one or two weekends each year where sales taxes are suspended. These sales tax holidays sometimes correspond to high volume shopping periods, such as back-to-school sales in late summer.
- ✓ **Deduct sales taxes on your Form 1040 tax return.** You're allowed to deduct up to \$10,000 of combined property taxes and sales taxes on your tax return, so be sure to look into this deduction if you itemize your Schedule A deductions. The only potential headache if you deduct sales taxes is needing to track and record all sales taxes you've paid throughout the year.

As always, contact the office with questions by emailing us at info@colemancpas.com or calling 773-444-3100. We are here to help.

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