

## Monthly Newsletter

August 2019

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### Join us in welcoming Courtney Swayze and Cateri Cruse!



Courtney is a proud Golden Gopher and graduate of the University of Minnesota where she earned her Bachelor of Arts in Sociology. After college, Courtney took on management positions ranging from a Fortune 500 company to small businesses. Over her 7 years in these roles, she prides herself on the customer service and community experiences she was able to be a part of.

Courtney moved from Minnesota to Chicago, with her husband, Robert, and their dog, Goucher. She loves spending time outdoors, traveling, and competing in her kickball league. As an avid Minnesota sports fan, she finds ways to cheer for her teams from afar by checking out the local Minnesota bars and traveling to nearby games. In addition to her passion for sport, Courtney is a talented baker and decorator – ask her about some of the projects she’s worked on!



Cateri has a Bachelor of Arts in Industrial and Organizational Psychology from DePaul University. She is originally from the Northwest Suburbs of Chicago, but has called the City home now for four years. She spends most of her free time with her two adorable cats, but also enjoys all of the fun activities the City has to offer, being outside in nature, and hanging out with her 5 siblings. Cateri’s hobbies also include portrait and city-scape photography, as well as volunteering at her local animal shelter.

### 5 Surprising Taxable Items

Wages and self-employment earnings are taxable, but what about the random cash or financial benefits you receive through other means? If something of value changes hands, you can bet the IRS considers a way to tax it. Here are five taxable items that might surprise you:

1. **Scholarships and financial aid.** Applying for scholarships and financial aid are top priorities for parents of college-bound children. But be careful - if any part of the award your child receives goes toward anything except tuition, it might be taxable. This could include room, board, books, travel expenses or aid received in exchange for work (e.g., tutoring or research). **Tip:** *When receiving an award, review the details to determine if any part of it is taxable. Don't forget to review state rules as well.*
2. **Gambling winnings** All gambling winnings are taxable, including casino games, lottery tickets and sports betting. Thankfully, the IRS allows you to deduct your gambling losses (to the extent of winnings) as an itemized deduction, so keep good records and receipts. **Tip:** *Know when the gambling establishment is required to report your winnings. It varies by type of betting. For instance, the filing threshold for winnings from fantasy sports betting and horse racing is \$600, while slot machines and bingo are typically \$1,200. But beware, the gambling facility and state requirements may lower the limit.*
3. **Unemployment compensation.** Unfortunately, the IRS doesn't give you a break on the taxes for unemployment income. Unemployment benefits you receive are taxable. **Tip:** *If you are collecting unemployment, you can either have taxes withheld and receive the net amount or make estimated payments to cover the tax liability.*
4. **Crowdfunding.** A popular method to raise money for new ventures or to support a special cause is crowdfunding through websites. Whether or not the funds are taxable depends on two things: your intent for the funds and what the giver receives in return. Generally, funds used for a business purpose are taxable and funds raised to cover a life event (e.g., special causes or medical assistance) are considered a gift and not taxable to the recipient. **Tip:** *Prior to using these online tools to raise money, review the terms and conditions and ask for a tax review of what you are doing. If you need to account for taxes, reserve some of what you raise for this purpose.*
5. **Cryptocurrency.** Cryptocurrencies like Bitcoin are considered property by the IRS. So if you use cryptocurrency, you must keep track of the original cost of the coin and its value when you use it. This information is needed so the tax on your gain or loss can be properly calculated. Remember, the tax rate on property can vary if you own the cryptocurrency more than a year, so record all dates. **Tip:** *For those considering replacing cash with things like Bitcoin, you need to understand the gain or loss complications. For this reason, many people using cryptocurrency do so for speculative investment purposes.*

When in doubt, it's a good idea to keep accurate records so your tax liability can be correctly calculated and you don't get stuck paying more than what's required. Please call if you have any questions regarding your unique situation.

## **Smart Tactics to Manage Student Debt**

- **Know the loan terms.** Not all student debt is created equal. Understanding the terms of all your student loans is important. With this knowledge, select the correct loan option and know which loan to pay first. Things you should know about each loan include: **Suggestion:** *Create a spreadsheet with a student loan in each column. Then note the terms under each loan. This will create a strong visual of your situation and show you which loans are most important.*
  - ✓ The interest rate
  - ✓ The term of the loan
  - ✓ Amount of any up front fees
  - ✓ Pre-payment penalties (if any)
  - ✓ When interest and payments start
  - ✓ Payment amounts
  - ✓ Payment flexibility
  - ✓ How the interest is calculated
- **Avoid accruing interest.** Some student loans accrue interest while you are in school. With the compounding of this interest, your student loan amount continues to grow with each passing year before repayment begins. **Suggestion:** *Figure out how to make some or all of the interest payments while in school. This will not only lock the amount you owe, it will reduce the amount of overall loan payments.*
- **Pay a little extra in the early days.** The math of loans benefits banks in the early years of the repayment period. This is because the vast majority of interest is paid in the first years of repayment. By the time you get to the last year of repayment, payments are primarily the principal balance and interest is nil. **Suggestion:** *Pay extra every month as soon as payments start. While this seems impossible as you enter the workforce, even \$25 extra per month can dramatically reduce the amount of total payments you make over the life of your loan. For example, a \$25 extra payment on a 10-year \$50,000 student loan with 5 percent interest would cut six months off the loan, save \$834 in interest, AND save \$3,180 in future loan payments!*
- **Make small cuts elsewhere.** Having a hard time finding a few extra dollars to make extra payments? Consider observing and then changing your spending habits. **Suggestion:** *Purchase one less latte a week. Drop one monthly service from a bill. Eat in more often. Then use these savings as a bonus payment on your student loan principal.*

While student debt is often an unavoidable outcome of getting a college education, it can be minimized if actively managed. Small changes can yield results if planned for in advance.

## **Cash Flow Concepts That Can Save Your Business**

- **Analyze cash flow.** If you don't know it's broken, you can't fix it. The starting point for any meaningful action to control cash is discovering where the money's coming from and where it's going. Get a handle on cash by monitoring your bank accounts for at least one complete business cycle; then use that information to establish a realistic forecast. This should be done throughout the year to help you understand your seasonal cash needs.
- **Monitor receivables.** Extending credit to risky customers, failing to identify late payers, refusing to collect payment on a timely basis — these practices amplify cash flow problems. Mitigate receivable fluctuations by generating aging reports. Use the report to follow up when payments are late. You may even wish to offer discounts to customers who pay early.
- **Slow down payments.** Prudent cash flow management dictates that you retain cash as long as possible. So pay your vendors on time — not too early. Of course, if suppliers offer discounts for early payment, take advantage of cost savings whenever possible. Also consider negotiating with suppliers to extend payment terms.
- **Time large expenses.** If you know a property tax payment is due in May, start setting aside money in a separate fund in October. The same holds true for any large payment that comes due during the year. If your equipment is nearing the end of its useful life or your roof is showing signs of wear, start saving now. Don't let big expenditures catch you by surprise.

By taking these steps and endeavoring to smooth out cash fluctuations, proficient managers keep their companies strong throughout the business cycle.

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

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