Coleman & Associates
Fully Integrated Tax, Accounting & Financial Services

Monthly Newsletter

January 2020

January 15

- 4th Quarter Estimated Payments Due

Start tax planning for the new year:

- Adjust withholdings
- Organize filing records
- Schedule tax consultation
- Rebalance investment portfolio

Welcome 2020. A new year calls for a fresh look at your financial strategies. Consider how to make the most of your savings accounts — and don't forget you still have time to fund your IRA!

Call if you would like to discuss how this information relates to you. If you know someone who can benefit from this newsletter, feel free to send it to them.

February Has an Extra Payroll Period

Even in years without an extra day in February, there is the potential for additional paydays if the payroll is weekly or biweekly (every other week) because 365 days do not divide evenly into the seven days of the week.

In any year with 365 days, there will be six days of the week that occur 52 times and one day of the week that occurs 53 times, he explained. In a leap year, with 366 days, there will be five days of the week that occur 52 times and two days of the week that occur 53 times – Wednesday and Thursday in 2020.

For those years when an employer finds itself with 53 or 27 paydays, there are three options:

- Do nothing and pay the same amount for each payday, recognizing one extra paycheck in the year. This results in a higher annual payroll cost for salaried employees.

- Divide annual salaries by 53 or 27 paydays. This will result in smaller employee checks each payday, countered by an extra paycheck at year's end. For instance, if a salaried employee is paid $52,000 a year, an employer can recalculate the per-paycheck amount so it ends up working out to be $52,000 over 27 paychecks every other week instead of 26 paychecks. Employers electing this option should ensure compliance with the federal Fair Labor Standards Act and any relevant state wage laws.

- Another solution some favor is to change from a paycheck every two weeks to a twice-per-month paycheck. Be sure to adjust benefits deductions accordingly.

Make Your Cash Worth More

Here are some ideas to help you make the most of your banked cash:

1. **Understand your bank accounts.** Not all bank accounts are created equal. Interest rates, monthly fees, minimum balances, direct deposit requirements, access to ATMs, other fees and customer service all vary from bank to bank and need to be considered. Start by digging into the details of your accounts. There may be some things you've been unnecessarily living with like ATM fees or monthly account charges. Once you have a handle on your current bank, conduct research on what other banks have to offer.

2. **Know your interest rates.** As a general rule, the more liquid an account, the lower the interest rate. Checking accounts offer the lowest rates, then savings accounts, which yield lower rates than CDs. Maximizing your earnings is as simple as keeping your cash in accounts with higher interest rates. The overall interest rate earned between all your accounts should be higher than the inflation rate, which is generally around 2 percent.

3. **Make smart moves.** There are a couple of things to take into account when making transfers. First, federal law allows for only six transfers from savings and money market accounts per month. Second, if you invest in longer term investments like CDs or bonds, there are penalties for withdrawing funds before the maturity date. So make sure you can live without the funds for the duration of the term.

4. **Stay diligent.** Putting together a cash plan is just the start. The key to success is to be persistent. Besides losing out on potential earnings, mismanaging your cash can result in hefty overdraft fees. The more attention you devote, the more your money will grow.

There's Still Time to Fund Your 2019 IRA

There is still time to make a contribution to a traditional IRA deductible or nondeductible or Roth IRA for the 2019 tax year until April 15, 2020.

The annual contribution limit is $6,000 or $7,000 if you are age 50 or over.

Prior to making a contribution, if you (or your spouse) are an active participant in an employer's qualified retirement plan (a 401(k), for example), you will need to make sure your modified adjusted gross income (MAGI) does not exceed certain thresholds. There are also income limits to qualify to make Roth IRA contributions.

Single taxpayer contribution eligibility begins to phase out at MAGI of $64,000 for traditional IRA's and $122,000 for ROTH IRA's.

Married taxpayer contribution e eligibility begins to phase out at MAGI of $103,000 for traditional IRA's and $193,000 for ROTH IRA's. Note: there are special rules for taxpayers married filing separately.

If your income is too high to take advantage of these IRAs you can always make a non-deductible contribution to an IRA. While the contributions are not tax-deferred, the earnings are not taxed until they are withdrawn.

2020 Retirement Plan Limits

As part of your 2020 planning, now is the time to review funding your retirement accounts. By establishing your contribution goals at the beginning of each year, the financial impact of saving for your future should be more manageable. Here are annual contribution limits:

Retirement Plans	2019	2020	Age 50 or older catch up
IRA: Traditional	$6,000	$6,000	add: $1,000
IRA: Roth	$6,000	$6,000	add: $1,000
IRA: SIMPLE	$13,000	$13,500	add: $3,000
401(k), 403(b), 457 plans	$19,000	$19,500	add: $6,500

If you have not already done so, please consider:

- Reviewing and adjusting your periodic contributions to your retirement savings accounts to take full advantage of the tax advantaged limits
- Setting up new accounts for a spouse or dependent(s)
- Using this time to review the status of your retirement plan
- Reviewing contributions to other tax-advantaged plans including flexible spending accounts and health savings accounts

It's Time to Prioritize Inventory Management

Extraordinarily low interest rates and a rapidly evolving business climate has made inventory management a lost art. Other business initiatives may seem to be more urgent and impactful, but in reality, mastering inventory levels is a key to most successful and growing businesses. Here are reasons why prioritizing your inventory management is a must:

- **Less shrink.** Shrinkage represents cash that goes to waste because inventory is damaged or past sell date. It is a sign of a weakness in the inventory control process. Adding quality control practices that account for climate control and other factors can help avoid damaging valuable stock and catch defective purchases before they make it into your warehouse. Tightening up your inventory controls equals less stuff to throw away which means less money wasted.

  Action: *Create a shrink scorecard. Note all product that is non-saleable, and track units tossed, their dollar value, and who supplied it. Compare waste to prior year and against your goals.*

- **More cash.** In a perfect world, you receive your inventory as soon as it is sold. Material or product that sits in the warehouse adds storage costs and risks turning into unsaleable product. Aligning your inventory operation with your sales cycle plays directly with improving your cash flow. Understanding sales trends will allow you to optimize your stock levels and save money in the process. When you spend less on unnecessary inventory costs you have more cash to invest into marketing, new product initiatives or capital equipment that can bolster your bottom line

  Action: *Implement just in time (JIT) with key suppliers. Explore ways to deliver product when you need it versus purchasing a larger amount and then storing it.*

- **Improved forecasting.** The old saying garbage in, garbage out applies perfectly when trying to forecast inventory demand. If you can't trust your inventory process, it's impossible to accurately predict future output. This leaves you flying blind when budgeting and preparing for future expenditures. With a firm grip on your inventory needs and procurement-to-sales cycle, your forecasting will become more accurate.

  Action: *Create a rolling 12-month forecast of sales. The forecast should provide details on major product lines. Translate this forecast into lead times for your inventory procurement.*

- **Better customer relations.** Once you've optimized your operation, the quality of your customers' experience increases exponentially. You can cut prices without sacrificing margin, improve lead times, and add new product lines with your extra cash. While the effective inventory process you built is humming along, you can focus your attention on improving your products to better match the needs of your target market. This will help boost your sales!

  Action: *Set inventory targets to shorten lead times. Measure how many back orders you have and note how often products are returned as defective. If your inventory management is improving you should see positive results in both areas.*

Inventory management will not take care of itself. Giving your inventory system the attention it deserves will pay major dividends both now and in the future.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.