Coleman&Associates

Fully Integrated Tax, Accounting & Financial Services

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You Know You Need Tax Planning If…

Effective tax planning helps you make smart decisions now to get the future outcome you desire - but you need to make sure you don't miss anything. Forget to account for one of these situations and your tax plans will go off the rails in a hurry:

- **Getting married or divorced.** One plus one does not always equal two in the tax world. Marriage means a new tax status, new deduction amounts and income limits, and a potential marriage penalty. The same is true for divorce, but with added complexity. Untangling assets, alimony, child support and dependents are all considerations worthy of discussion.
- **Growing your family.** While bringing home a new child adds expenses to your budget, it also comes with some tax breaks. With a properly executed plan, you can take home the savings now to help offset some of those new costs. If you are adopting, you may be eligible for an additional tax credit to help with the adoption expenses.
- **Changing jobs or getting a raise.** Earning more money is great, but if you're not careful, you might be surprised by the tax hit. Each additional dollar you earn gets taxed at your highest tax rate, and might even bump you to the next tax bracket. If you are switching jobs, the change also includes things like new benefit packages to consider.
- **Buying or selling a house.** Whether you're a first-time homebuyer, you're moving to your next house, or you're selling a house, there will be tax implications resulting from the move. Knowing how your taxes will be affected ahead of time will help you make solid financial decisions and avoid surprises. If you're looking to buy or sell investment property, even more tax issues come into play.
- **Saving or paying for college.** There are so many different college tax breaks, it can be tricky to determine which ones might make the most sense for your situation. These include the American Opportunity Tax Credit, the Lifetime Learning Credit, the Coverdell Education Savings Account, 529 plans and student loan interest deductibility.
- **Planning for retirement.** Everyone needs to plan for retirement, but each situation is different. Some of the factors to keep in mind include employment status, current income, available cash, future earnings and tax rates, retirement age and Social Security. Putting all of these variables into one analysis will paint a clearer picture of your retirement strategy and provide a way forward.

Don't make the mistake of omitting key details from your tax plan. Call now to schedule a tax-planning meeting.

Estate Planning for Single Parents Requires Special Considerations

Here's a fast fact: The percentage of U.S. children who live with an unmarried parent has jumped from 13% in 1968 to 32% in 2017, according to Pew Research Center's most recent poll.

While estate planning for single parents is similar to estate planning for families with two parents, when only one parent is involved, certain aspects demand your special attention.

Of course, parents want to provide for their children's care and financial needs after they're gone. So if you're a single parent, here are five questions you should ask:

1. Have I selected an appropriate guardian? If the other parent is unavailable to take custody of your children should you become incapacitated or unexpectedly die, your estate plan must designate a suitable, willing guardian to care for them.

2. What happens if I remarry? Will you need to provide for your new spouse as well as your children? Where will you get the resources to provide for your new spouse? What if you placed your life insurance policy in an irrevocable trust for your kids to avoid estate taxes on the proceeds? Further complications can arise if you and your new spouse have children together or if your spouse has children from a previous marriage.

3. What if I become incapacitated? As a single parent, it's particularly important to include in your estate plan a living will, advance directive or health care power of attorney to specify your health care preferences in the event you become incapacitated and to designate someone to make medical decisions on your behalf. You should also have a revocable living trust or durable power of attorney that provides for the management of your finances in the event you're unable to do so.

4. Should I establish a trust for my children? Trust planning is one of the most effective ways to provide for your children. Trust assets are managed by one or more qualified, trusted individuals or corporate trustees. You specify when and under what circumstances funds should be distributed to your kids. A trust is particularly important if you have minor children. Without one, your assets may come under the control of your former spouse or a court-appointed administrator.

5. Am I adequately insured? With only one income to depend on, plan carefully to ensure that you can provide for your retirement as well as your children's financial security. Life insurance can be an effective way to augment your estate. You should also consider disability insurance. Unlike many married couples, single parents don't have a "backup" income in the event they can no longer work.

Review your estate plan

If you've recently become a single parent, it's critical to review your estate plan. We'd be pleased to help you make any necessary revisions.

Tax Fraud and How You Can Learn from High-Profile Scandals

The recent college admission scandal involving Lori Laughlin (who played Aunt Becky in the *Full House* TV series) and others is shedding light on just one-way people allegedly cheat on their taxes. Here are examples of some famous people in tax trouble with the IRS and helpful hints to make sure it doesn't happen to you:

- **Lori Laughlin and questionable charitable donations.** In this case, the IRS would investigate whether payments deducted as charitable contributions on her tax return were really charitable contributions. Regardless of how the legal charges shake out, Loughlin is looking at a large tax bill if the charity she contributed to is stripped of their non-profit status.

  Helpful hint: *Charitable giving must be to legitimate charitable organizations, for legitimate purposes, and must be reduced by any value received in return.*

- **Al Capone and his illegal earnings.** After years of bribing and wriggling his way out of violent crime charges, Capone was charged with 22 counts of tax evasion for not reporting income on illegal activities. He was sentenced to 11 years in prison - some of which were served at Alcatraz prison in San Francisco.

  Helpful hint: *ALL income - even if obtained illegally - is taxable.*

- **Wesley Snipes decided not to file his taxes.** In 2008, actor Snipes was convicted for not filing tax returns from 1999 to 2001. Among his many arguments, Snipes used the tax protester theory claiming domestic income is not taxable. After jail time, Snipes' offer in compromise to lower his $23 million tax bill request was shot down by the IRS.

  Helpful hint: *Exotic tax schemes are actively monitored by the IRS. If it seems to good to be true, it probably is too good to be true and requires a second opinion.*

- **Leona Helmsley faked her business expenses.** Helmsley, A famous real estate mogul in the 1980s, had more than $8 million of renovations to her private home billed to one of her hotels so she could deduct the expense on her taxes. After being convicted, Helmsey had to pay back the $8 million and served 18 months in prison.

  Helpful hint: *Separate business expenses from personal expenses. Open separate bank accounts and never intermingle expenses. The IRS is quick to disallow deductions when personal expenses and business expenses are mixed together.*

- **Pete Rose hid his "likeness" income.** Many famous athletes go on to sell autographs, memorabilia and get paid for appearances after they retire from their sport. Rose was no different, but he opted not to report the $354,968 he earned over a four-year period. The result was five months in prison and a $50,000 fine in addition to having to pay back the taxes he tried to avoid.

  Helpful hint: *Don't attempt to hide income. With less and less businesses using cash payments, the IRS now can use matching programs to quickly find underreporting problems.*

While seeing well-known celebrities in the press for tax trouble makes for interesting reading, there are useful tax lessons for all of us. It provides an opportunity to see how IRS employees think and what they are reviewing.

4 Key Elements of Great Business Bookkeeping

Your bookkeeping system is the financial heart and lifeblood of your business. When set up and operating properly, your books help you make smart decisions and seamlessly turn your financial data into useful information. Here are four key characteristics to build and maintain a healthy bookkeeping system:

1. **Select the proper accounting method**
   There are two different methods for recording transactions: cash-basis and accrual-basis. In general, cash-basis records a transaction when payment is made where accrual-basis books the transaction upon delivery of the good or service. Cash-basis is easier to track and a useful option for smaller businesses and sole-proprietors. Whereas larger businesses who buy from vendors on account (accounts payable) generally use accrual-basis accounting.

   Selecting the proper method affects any related financial transactions and how your financial statements are presented. A correct approach will also include consideration of outside factors, including: IRS rules (businesses with more than $25 million in gross receipts must use accrual-basis), bank covenants, and industry standards. Once a choice is made, it can be changed but it must be properly reported to the IRS.

2. **Create an account structure that fits the company**
   Every business has a chart of accounts included in their bookkeeping system. These accounts sort the business's transaction data into six meaningful groups. They are assets, liabilities, equity, income, cost of goods sold and other expenses. Each group will often have numerous accounts and sub-accounts associated with them.

   Having the right mix of accounts created and grouped in an organized fashion will help you properly classify transactions and prepare usable financial statements. The proper account structure for your company will mesh with your specific information needs.

3. **Enter accurate and timely transactions**
   The value your data provides is dependent on each transaction being recorded correctly and on time. Entering transactions in the wrong account can cause major issues down the road. Financial reporting that is delayed can hide problems that need immediate attention. Some transactions are relatively straightforward, and some are more complex (like payroll, accruals and deferrals).

   It's important to have someone who understands both your business and the accounting rules enter your transactions in a timely fashion. In addition, a good month-end close process that involves reviewing each account, will find mistakes from the initial entries.

   Reconcile your bank accounts every month! This simple task ensures all of your cash receipts and disbursements are recorded timely.

4. **Establish financial statements for decision-making**
   The main financial statements are the income statement (income - expenses = gross profit), the balance sheet (assets = liabilities + equity) and statement of cash flow. Each statement has a specific purpose:

   a. **Income statement.** The income statement shows company performance for a select period of time; typically, monthly with a full year summary. At the end of each year the income statement restarts.
   b. **Balance sheet.** The balance sheet displays a company's overall health as of a certain date. It is perpetual. This means it doesn't end until the business is closed or sold. It includes one line that summarizes the current year and prior year results from the income statement.
   c. **Statement of cash flow.** This statement summarizes the inflow and outflow of cash. It ensures you know whether you have enough cash and the pattern of your cash position over time.

If properly executed, your bookkeeping system will turn out accurate financial statements that can be used for several tasks - financial reporting, budgeting, forecasting, raising capital, applying for a loan, tax reporting and decision making. Feel free to call with any questions or to discuss bookkeeping solutions for your business.

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