Coleman & Associates
Fully Integrated Tax, Accounting & Financial Services

Monthly Newsletter - September 2020

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Important Dates & Deadlines to Note

September 15

- ❖ Extension deadline for 2019 S corporation and partnership tax returns
- ❖ 3rd quarter 2020 estimated income tax is due (individuals, corporations, trusts & estates)

October 1

- ❖ SIMPLE IRA plan establishment deadline

13.9 Million Americans to Receive IRS Tax Refund Interest

The Internal Revenue Service sent interest payments to about 13.9 million individual taxpayers who timely filed their 2019 federal income tax returns and are receiving refunds. The interest payments, averaging about $18, will be made to individual taxpayers who filed a 2019 return by this year's July 15 deadline and either received a refund in the past three months or will receive a refund. Most interest payments will be issued separately from tax refunds.

In most cases, taxpayers who received their refund by direct deposit will have their interest payment direct deposited in the same account, totaling about 12 million of these payments. Everyone else will receive a check. A notation on the check - saying " INT Amount" - will identify it as a refund interest payment and indicate the interest amount.

By law, these interest payments are taxable and taxpayers who receive them must report the interest on the 2020 federal income tax return they file next year. In January 2021, the IRS will send a Form 1099-INT to anyone who receives interest totaling at least $10.

IRS Guidance on Employee Payroll Tax Deferral

On August 28, 2020, the Department of the Treasury and IRS issued Notice 2020-65, which provides much needed guidance on the President's payroll tax deferral announcement from August 8th. But questions still remain.

What may be deferred? The 6.2% employee portion of social security taxes withheld from employees' wages may be (the employer portion can already be deferred under the CARES Act).

Eligible wages. All bi-weekly paychecks of less than $4,000 are eligible. This means that the determination is made on a paycheck-by-paycheck basis. If you pay weekly, your number is less than $2,000. If you pay twice a month, your number is approximately $4,333. Reminder this limit is a cliff, not ratable. So once you hit your number, no deferral is allowed on any of the wages for that pay check.

Applicable period. Wages paid between September 1, 2020, and December 31, 2020.

How does it get paid back? Starting January 1, 2021, employers will be required to withhold and remit the unpaid taxes by May 1, 2021. Employees will therefore have double withholding of Social Security taxes during the payback period.

As long as you have the same employees making the same wages (or more) from January through April of next year as you did from September through December of this year, then collection will work. The responsibility is on the employer to withhold and remit payroll taxes.

Unresolved issues:

- What if an employee leaves before the deferral is collected in full?
- What if an employee can't afford the double withholding from January through April of 2021?
- What if an employee is seasonal who is only going to work for the holiday rush?

While the effective date of the elective deferral begins September 1st, these unresolved issues merit caution and careful thought before implementing the employee deferral. The AICPA and other organizations are pressing the government for further clarification on these matters.

IRS Announces Common Tax Scams

The IRS recently announced its 2020 edition of its annual *Dirty Dozen* list of tax scams with a special emphasis on aggressive and evolving schemes related to COVID-19 tax relief, including Economic Impact Payments. Here are six of the more common scams:

1) **Phishing.** Phishing refers to potential fake emails or websites looking to steal your personal information. Remember the IRS will never initiate contact with you via email about an outstanding tax bill, refund or Economic Impact Payment.

   What you can do. *If you receive any suspicious phishing emails, forward them to phishing@irs.gov.*

2) **Fake charities.** Criminals frequently exploit natural disasters and other crisis situations such as this year's pandemic by setting up fake charities to steal donations. Fraudulent schemes normally start with unsolicited contact by telephone, text, social media, e-mail or even in person.

   What you can do. *Verify the charity's existence by searching for it using the* IRS's search tool.

3) **Threatening phone calls from IRS impersonators.** IRS impersonation scams include phone calls threatening arrest, deportation or license revocation if you don't pay a bogus tax bill. The IRS will never demand immediate payment or ask for financial information over the phone.

   What you can do. *If you received a phone call, contact your local IRS office to verify whether you owe any taxes.*

4) **Social media scams.** A scammer will use social media platforms such as Facebook and Twitter to obtain personal information from you, then use that information to trick you into providing them with confidential information. For example, the scammer could impersonate a family member, friend or co-worker in an attempt to obtain financial information.

   What you can do. *Be careful of publishing confidential information on social media. Verify the identity of any person or organization that asks you for confidential information.*

5) **Economic impact payment or tax refund theft.** Criminals file false tax returns or supply other bogus information to the IRS to divert refunds or Economic Impact Payments to wrong addresses or bank accounts.

   What you can do. *Contact a qualified professional to help walk you through how to report identity theft to the IRS.*

6) **Senior fraud.** Senior citizens have become more comfortable with various technologies such as social media. This has opened the door for scammers to take advantage of senior citizens by using fake emails, text messages and fake websites to steal personal information.

   What you can do. *Be the eyes and ears for the senior citizens you come in contact with. According to the IRS, anecdotal evidence indicates that senior fraud decreases substantially when a trusted friend or family member takes an interest in the senior's affairs.*

Tips to Improve Your Credit Score

Getting and maintaining a high credit score is just like playing a game. But just like any game, you first need to understand the rules so you can create a winning game plan. Here are the rules of the credit score game you need to understand so you can get the highest score possible:

- **Rule 1 – Pay your bills on time (Comprises 35% of your credit score equation).** Payment history is the most important component of your credit score and is pretty straightforward – it's a record of whether or not you've paid your bills on time.

  Action: *Don't be late paying your bills! A one-time late payment may not affect your score, but multiple late payments will drag down your score. Even better, understand what vendors report your payment history and which ones do not.*

- **Rule 2 – Refrain from maxing out your credit (30%).** Just because you have a $10,000 credit limit doesn't mean you should use it all. Using close to or all of your credit limit signals to lenders that you may be a high-risk borrower. Insurance companies also love to use high-limit spending as a reason to increase your home and auto insurance, so be forewarned!

  Action: *Don't use more than 25% of your available revolving credit, and pay the outstanding credit card balance in full each month.*

- **Rule 3 – Build a long history of using credit responsibly (15%).** Lenders want to see a track record that you can handle being entrusted with a credit limit. If you have old credit accounts that are still open and in good standing, that signals your trustworthiness, which is reflected in a higher credit score.

  Action: *When you open a credit account, keep it active for as long as possible. If you stop using an account, consider leaving that account open, but only if it will help your score and not hurt you in obtaining new credit.*

- **Rule 4 – Use multiple types of credit (10%).** Lenders like to see you with both revolving debt (credit cards) and installment debt (car and house loans).

  Action: *If you have a low credit limit, request a limit increase. Many banks will honor the request, especially if you've had a history of making on-time payments. If you don't have a history of using installment loans, consider making a small purchase (such as an appliance or electronic device) using an installment loan.*

- **Rule 5 – Avoid too many credit inquiries (10%).** Applying for many loans or credit cards in a short period of time tells lenders you may be attempting to acquire more credit than you can handle.

  Action: *Apply for only one type of credit at a time. Multiple inquiries for the same type of credit, for example a mortgage loan, within a short period of time will only count as one inquiry.*

You can improve your credit score by understanding these rules and putting them into practice.

Find a Budget Method That Works

You have your own unique personality, preferences and lifestyle. Likewise, how you manage and organize your finances can have its own personality, including how you budget.

Here are five different methods of budgeting, each with a distinct way of helping you organize your spending and finances.

- **Traditional budget.** Use last year's budget as a base, make any necessary adjustments due to changes in your income or expenses, and create your budget by taking your income minus your expenses to equal the amount you have to spend.

- **Envelope budget.** Keep a set amount of cash for the month in envelopes labeled with an expense category like groceries, clothing, eating out, entertainment, etc. Use one envelope per expense category. If you run out of money in one envelope, you can dip into other envelopes, but this will obviously impact spending in those areas.

- **Reverse budget.** Instead of stashing away the money left over after you're done spending for the month, first take out your portion for savings and then spend the amount of money that remains. Reverse budgeting is an effective way to prioritize saving for your future retirement, an emergency or rainy-day fund, or other big expenses like a vacation, a new car, or a down payment on a house.

- **Zero-based budget.** Know where each dollar is going and record every single dollar spent. Also called the zero-sum or down-to-the-dollar budget, this method helps you get specific about spending and keeping track of all your dollars. Instead of one amount allotted for food, you know exactly how much you will spend on groceries, lunch while at work, and dining out. Instead of one amount allotted for savings, you know exactly how much you are putting into retirement, loan repayment, and emergency savings.

- **50/20/30 budget.** Stick to three spending categories. Each month, 50% of your take-home income goes toward needs, 20% toward savings, and 30% toward wants. Examples of needs are housing or car payments and groceries. Savings could be retirement money, paying off loans, and emergency funds. Wants include things like shopping, vacation, or entertainment. Less detailed than the zero-based or envelope methods but more detailed than traditional or reverse budgeting, the 50/20/30 method helps you monitor money habits by helping you stick to three categories every month.

The best budget approach? One that works for you and one that you will continue to use. So pick an approach and try it. It can really change how you spend your money.

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