Coleman&Associates
Fully Integrated Tax, Accounting & Financial Services

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Hire Your Kids for Tax Savings

Summer's almost here, and soon most children will be on their long-awaited summer vacation. If you own or manage a business, have you thought of hiring your children, nieces, or nephews for a summer job?

If you do it right, it can be a win-win situation for everyone.

The kids will earn some money and gain valuable real-life experience in the workplace while your business will have some extra help during summer months when other staff may be on vacation. If it's a family business, there might even be some tax advantages as well.

If your child is doing a valid job and the pay is reasonable for the work, your business can generally claim a normal tax expense for wages paid. Your child will probably pay no or very little income tax on the wages they earned. And if the child is under age 18 and your business is unincorporated, neither your child nor your business will have to pay Social Security or Medicare payroll taxes in most cases.

To make the arrangement work, follow the following guidelines:

- **Ensure it's a real job.** It could be a simple job, such as office filing, packing orders, or simple production activities. But it needs to be an actual job.
- **Treat your child like any other employee.** Expect your child to work regular hours and exhibit appropriate behavior. Don't show favoritism or you risk upsetting regular employees.
- **Keep proper documentation.** Keep records of hours worked just as you would for any employee. If possible, pay your child using your normal payroll system and procedures.
- **Avoid family disputes.** If the arrangement is not working, or is disrupting the business, help your child find a summer job at another business.

The Hidden Tax Consequences of Cryptocurrency

You may recognize the name Bitcoin and maybe even Ethereum, but what about Litecoin, Dogecoin or Ripple?

These are just some of the more than 4,500 cryptocurrencies available today. There are hidden tax complications, however, associated with every cryptocurrency transaction. Here's what you need to know.

- **Every transaction has a tax consequence.** The IRS treats cryptocurrency as investment property, like stock, and taxes every transaction as a capital gain or loss. When you pay for something in the traditional manner with U.S. dollars, the IRS doesn't care what the value of the dollar is at the time of the transaction. For virtual currency purposes, however, the value matters. For example, assume you buy Bitcoin for $10 and two months later the market value of that Bitcoin grows to $15 and you spend that $15 worth of Bitcoin to buy something, you'll have a $5 taxable short-term gain that needs to be reported on your tax return. If you spend a lot of cryptocurrency, tracking the gains and losses can be very complicated.
- **Big gains mean big taxes, but big losses may be limited.** In classic IRS form, there is no cap on the amount of taxes you might owe in a single year for gains on the value of cryptocurrencies you sell, while losses might take many years to recoup because of the annual $3,000 loss limit against income. Adding to the complexity, virtual currencies have dramatic valuation changes...much more so than most traditional investment securities. So you will need to budget appropriately for the taxes you'll owe whenever you use or sell cryptocurrencies.
- **Cryptocurrency puts you on the IRS's radar.** Being relatively new, virtual currency has caused the IRS to become very concerned about potential mistakes and fraud related to how cryptocurrency is reported on tax returns. The IRS is so concerned about you not reporting cryptocurrency activity that the very first question of your tax return, right beneath where you put your name and address, asks if you took part in any virtual currency transactions over the past year.
- **You are responsible for bookkeeping.** With the IRS watching so closely, it's important to be accurate with your recordkeeping so you can properly report all virtual currency gains and losses on your tax return and substantiate all your transactions in the event of an audit.

Look at Your Employee Handbook with Fresh Eyes

For businesses, so much has changed over the past year or so. The COVID-19 pandemic hit suddenly and companies were forced to react quickly — sending many employees home to work remotely and making myriad other tweaks and revisions to their processes.

Understandably, you may not have fully documented all the changes you've made. But you should; and among the ideal places to do so is in your employee handbook. Now that optimism is rising for a return to relative normalcy, why not look at your handbook with fresh eyes and ensure it accurately represents your company's policies and procedures.

Legal considerations
Among the primary reasons companies create employee handbooks is protection from legal challenges. Clearly written HR policies and procedures will strengthen your defense if an employee sues. Don't wait to test this theory in court: Ask your attorney to review the legal soundness of your handbook and make all recommended changes.

Why is this so important? A supervisor without a legally sound and updated employee handbook is like a coach with an old rulebook. You can't expect supervisors or team members to play by the rules if they don't know whether and how those rules have changed.

Make sure employees sign a statement acknowledging that they've read and understood the latest version of your handbook. Obviously, this applies to new hires, but also ask current employees to sign a new statement when you make major revisions.

Motivational language
Employee handbooks can also communicate the total value of working for your company. Workers don't always appreciate the benefits their employers provide. This is often because they, and maybe even some managers, aren't fully aware of those offerings.

Your handbook should express that you care about employees' welfare — a key point to reinforce given the events of the past year. It also should show precisely how you provide support.

To do so, identify and explain all employee benefits. Don't stop with the obvious descriptions of health care and retirement plans. Describe your current paid sick time and paid leave policies, which have no doubt been transformed by federal COVID relief measures, as well as any work schedule flexibility and fringe benefits that you offer.

Originality and specificity
One word of caution: When updating their handbooks, some businesses acquire a "best in class" example from another employer and try to adopt it as their own. Doing so generally isn't a good idea. That other handbook's tone may be inappropriate or at least inconsistent with your industry or organizational culture.

Similarly, be careful about downloading handbook templates from the Internet. Chances are you'll have no idea who wrote the original, let alone if it complies with current laws and regulations.

Document and guide
Your employee handbook should serve as a clearly written document for legal purposes and a helpful guide for your company's workforce. Our firm can help you track your employment costs and develop solutions to any challenges you face.

Net Worth – Understanding Your Number

Knowing your net worth and understanding how it is changing over time is one of the most important financial concepts that everyone needs to understand. This number is used by banks, mortgage companies, insurance companies and you! Your net worth impacts your credit score, which in turn impacts your interest rates and things as mundane as the amount you pay for auto insurance.

A simple definition

- **Net worth** is the result of taking all the things you own (assets) minus what you owe others (debts and liabilities).
- **Assets** include cash, bank account balances, investments, your home, vehicles or anything else that you could sell today for cash. Assets also include any businesses or business interests you own.
- **Liabilities** are what you owe others, such as a mortgage or car loan, and any other debt, like credit card or student loan debt.

Your net worth changes over time, reflecting how you spend your money. For example, if you have tons of bills and spend more than you bring in, your bank account balances will be lower. If you spend a lot on your credit cards, your debt will go up. The net effect is a lower net worth.

Everyone has a net worth

Yes, everyone. Even a 6-year-old with money in their piggy bank has a net worth. If your child is saving up for a bike, they will convert one asset (cash) into another asset (their new bike)!

Calculating your net worth

- **Step one.** Reconcile your bank accounts and loans. Try doing this every month, as these are the easiest parts of your net worth to track and calculate.
- **Step two.** Calculate the value of all your remaining assets. For some of your assets, such as stocks, you can go online and find the current value of the stocks you own. For other assets, you'll have to estimate what you could sell that asset for today.
- **Step three.** Add up all your asset values, then subtract all your debts. What you're left with is your net worth (and yes, your number could be negative)!

Why you should know your net worth

Knowing your net worth contributes to the big picture of your financial circumstances. Here's why it's beneficial to know your net worth:

- **You want to apply for student loans.** You'll likely need to submit an application that details all your cash and other assets when applying for student loans. If your net worth is high enough, you may have to foot some of the tuition bill yourself.
- **You want to get insurance.** Some types of insurance use your credit score as part of the calculation for determining your premium payments. Knowing if you have a high net worth may help in obtaining a favorable premium amount.
- **You want to diversify your investments.** Certain investments are available only to individuals who have a high enough net worth.

- **You want to buy a home.** Banks want to see that you have plenty of cash when compared to your debts. If you have too much debt, you may need to either pay down the debt or increase your down payment.

Knowing your net worth and how to calculate it can help you achieve some of your financial goals. Please call if you'd like help calculating and understanding your net worth.

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