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May Client Update Newsletter

With tax season now in the rear view mirror for most of us, it's time to start thinking about how to minimize your taxes on next year's tax return.

In this month's newsletter, get a start on your tax planning by learning about the tax consequences of different types of virtual transactions, from cryptocurrency and non-fungible tokens to internet marketplaces and online courses.

Also read about maximizing your working-from-home opportunity, avoiding surprising fees while on vacation, and a great article explaining how taxes work for those picking up a summer job.

Please feel free to forward the information to someone who may be interested in a topic and call with any questions you may have.

Upcoming dates

- **May 8**
  - Mother's Day
- **May 30**
  - Memorial Day

In this issue:

Tax Consequences of Virtual Transactions

As social distancing turns convenience into necessity, the number and types of activities moving to the internet is exploding. It's important to remember that these virtual events often trigger real-world tax implications.

Here are some things to keep in mind:

> **Internet marketplaces** – Proceeds of sales of goods and services on internet marketplaces can be taxable income. That's true whether you're a hobbyist or running an online business. Depending on your level of activity, tax rules may limit your deductions. Internet sales may also be subject to sales or use taxes, which vary by state. If the platform is considered a Marketplace Facilitator, sales taxes are collected by the marketplace itself and remitted to the appropriate taxing entities. In other cases, that responsibility may fall on you. So you need to know the difference.
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> **The IRS is watching** – New reporting requirements require more reselling activity to be reported to the IRS. So if you resell your sporting event tickets or concert tickets using an online tool, expect the platform to ask you for information about yourself, including your Social Security number. Why? E-bay, StubHub, Ticketmaster and similar platforms must now report a lot of this activity to the IRS via new Form 1099-K reporting rules!
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> **Online courses** – Social media platforms are loaded with advertisements for how-to courses on every conceivable topic – including how to create your own online course. If you decide to share your knowledge in a particular subject matter by developing and selling an online course, proceeds can be subject to income tax. Sales and use taxes may also be due on the purchases of these courses in some jurisdictions.
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> **Crowdfunding** – If you use crowdfunding platforms like Kickstarter or Indiegogo to raise funds for your business venture or project, the money you receive can be taxable. If you provide a reward in exchange for different amounts, the funds you receive are treated as sales proceeds. Crowdfunding transactions may also be subject to state sales and use taxes. If backers of your venture receive equity in your startup company, those transactions may not be taxable as income, but they are regulated by the Security and Exchange Commission.

Online fundraising – Funds you receive through an online fundraising campaign to pay for medical bills, disaster recovery or other personal expenses generally are treated as nontaxable gifts. Donations to such campaigns may even qualify as deductible charitable contributions by the donors.

Social media influencers – It may seem like fun to develop a significant following on social media, but capitalizing on that audience through product endorsements and other influencing activities is treated as business income. Endorsement payments are taxable and so is the value of any products received in exchange for reviews or brand placements in social media posts.

Virtual currency – Payments you receive in the form of virtual currency for goods and services are treated similar to cash transactions and are included in your gross income at fair market value. But to add a level of complexity, that virtual currency is also considered property, which can result in taxable gains or losses. So you will also need to attach the fair market value to that virtual currency as of the receipt date of the currency. Then when you use the currency you will need to track a gain or loss on that future transaction.

Please call if you need help sorting out the tax implications of any virtual activity or transaction.

Maximizing Your Working From Home Opportunity

Flexible working arrangements appear to be here to stay. But the benefits of working from home also come with the challenge of maintaining an appropriate work-life balance and a high level of productivity. Here are several ideas to consider if you'll be continuing to work from home, either full-time or occasionally:

Divide your day into sections. Consider dividing your day into segments based on projects and asking for several hours of quiet time. If you have a family, it's easier to manage 2 to 3 hours of uninterrupted time rather than 8 to 10 hours at a time.

Action step: *Get an electronic calendar, share it with your family and co-workers, and actually use it! An up-to-date calendar will help you, your family and your co-workers know when you are busy.*

Create an urgent/important matrix for your to-do list. A never-ending to-do list can quickly rob you of your work-life balance. An urgent/important matrix can help you decide which items need done today, and which items are ok to push into the future.

Action step: *The next time someone approaches you with a small project that needs to get done as soon as possible, have that person help you decide where to place that task in your matrix. If the task truly needs to be completed ASAP, the two of you can decide which of your current priorities can be pushed into the future.*

Over-communicate with your boss. Heading off phone calls and e-mails from your boss asking about a project's status will save valuable time for both of you in the quest of work-life balance. Consider being proactive about sharing any information that your boss might want to know.

Action step: *A summary e-mail sent to your boss once a week could serve as a quick touch point about project updates instead of sending multiple e-mails throughout the week.*

Create and review your own space. Even if you live by yourself, try to separate your work environment from your non-work environment. By now, most work-at-home employees have their routine, but it should still be reviewed periodically.

Action step: *Clock your work time a couple of days each month. See how many hours you are giving your employer. Adjust you home work day to either be more productive or take some of your personal time back. Working too much or not enough can both create long-term complications.*

Continue to leverage in-office opportunities. Do not overlook the power of periodically connecting with other team members. Many employers are providing alternative work spaces for those who wish to connect with fellow employees.

Action step: *Take advantage of these in-office opportunities. This is especially important if your supervisor and other decision makers are in the office. Remember, human interaction is still a powerful tool for developing relationships and creating work synergy.*

Working from home is part of the new norm. Be sure to work closely with your employer to make sure this arrangement remains a win-win opportunity for both of you.

Watch Out! Vacation Costs That Sneak Up on You

Going on vacation is a time to get away, relax and enjoy new experiences. But if you don't pay close attention, extra costs can sneak up on you like tiny money-stealing ninjas. Here are eight sneaky vacation costs.

Covert airfare increases. Airline pricing

algorithms are programmed to store your browsing history to see if you've been looking at flights. If you have, they will bump up the price. Before searching, clear your internet history and switch to private (or incognito) mode on your web browser. When you are finally ready to book the flight, do so using a different computer from a new location to avoid this artificial price increase.

Stealthy fees. The nightly base rate for a fancy resort or self-rental often compares favorably to a standard hotel in the same location. This can be an intentional pricing tactic used to get their property on the initial search results page. Don't be fooled! These same places often add a daily resort fee or high cleaning cost on to your bill. The extra fees might be worth it to you, but it's better to understand the full cost of the stay before making your reservation.

Bait and switch. In the self-rental marketplace, a property management service may feature a great-looking rental, but when you try to book it, it is not available. They then try to switch you to a less desirable property. Even worse, a single property can be listed on numerous services so that property you think you reserved is actually already rented to someone else!

Useless rental car insurance. Rental car companies will try to sell you insurance to cover damages you may cause during the rental period. The auto insurance you already have many times will extend to the rental car. In these cases, the extra insurance isn't necessary. Before renting a car, check with your insurance company to see if a rental will be covered.

Bloated baggage fees. You probably already know that airlines may charge for checking in a bag, but did you know they will charge extra if a bag is too heavy? Exact weight can vary by airline or location, so check the weight limits before you go and weigh any heavy bags using a bathroom scale.

Crafty parking costs. Downtown hotels in big cities charge as high as $75 per night for parking! Research alternative parking options near your hotel or compare the cost of using ride share options before committing to the hotel rate.

Extra driver charges. Rental car companies will charge an extra daily fee to have a second driver listed on the rental. If possible, commit to one person to handle all the driving on your vacation.

Tricky foreign transaction fees. Traveling abroad and paying an extra fee for every purchase will add up in a hurry. Before you go, check your credit cards, bank accounts and cell phones to see if they charge foreign transaction fees. If they do, shop for another card, account or cell phone that doesn't charge fees.

Everyone expects to pay for their vacation, but with a little planning you can avoid dealing with unpleasant surprises during your vacation!

Summer Jobs and Taxes

The tax man wants their share!

Now is the time to prepare for the not-so-pleasant part of having a summer job – paying taxes! Here's what you can expect depending on what type of job you have this summer.

The employee. A job at a retail store or restaurant generates earned income that is subject to payroll and income taxes. Paying taxes as an employee is super easy, as all necessary taxes will be withheld from your paycheck. You may need to file a tax return if wages and tips are more than $12,950, which is the standard deduction for single taxpayers in 2022.

The family business. A job at a family business will also generate earned income that is subject to payroll and income taxes. If you are under age 18, receive reasonable compensation for a legitimate job, and the business is either a sole proprietorship or an LLC, you could qualify for an exemption from Social Security, Medicare, and federal unemployment taxes.

The entrepreneur. A job such as mowing lawns, working on computers or dog walking will generate earned income that is subject to income taxes. You will also have to pay a 15.3% self-employment tax on all profits. Paying taxes as an entrepreneur or business owner also involves making payments to the IRS, either electronically or via check, throughout the year.

The domestic worker. Performing chores such as babysitting and cleaning for neighbors may trigger the household employee rules, also known as the nanny tax. This can be good news, as these jobs are typically exempt from Social Security and Medicare taxes when paid to workers under age 18 who are considered household employees.

What you need to do

Here are some suggestions for understanding how taxes will affect your summer job:

Explain how taxes are withheld. If you are an employee, take one of your paychecks and review how each dollar amount is calculated. This will also help you understand the different types of taxes, including federal and state income taxes, Social Security taxes and Medicare taxes.

Set up a savings account. If you have your own business, you'll need to set aside a certain percentage of the money you earn to pay the IRS. An easy way to do this is by transferring a certain portion of the money into a savings account. Pay attention to the quarterly estimated due dates throughout the year – April 15th, June 15th, September 15th and January 15th. These are the deadlines for you to send tax payments to the IRS.

Lower your tax bill. Consider opening an IRA that can help you start saving for the future while potentially lowering your taxes. This helps establish a healthy savings habit while understanding it is possible to pay less in taxes!

Please call if you have questions about taxes and how they apply to your summer job.

The Home Gain Exclusion: Make Sure You Qualify!

Across the country, many homeowners are cashing out to multiples over list price, especially since one of the largest tax breaks available to most individuals is the ability to exclude up to $250,000 ($500,000 married) in capital gains on the sale of your personal residence. Here is what you need to know.

Background

As long as you own and live in your home for two of the five years before selling your home, you qualify for this capital gain tax exclusion. Here are the official hurdles you must jump over to qualify for this tax break:

Main home. This is a tax term with a specific definition. Your main home can be a traditional home, a condo, a houseboat, or mobile home. Main home also means the place of primary residence when you own two or more homes.

Ownership test. You must own your home during two of the past five years.

Residence test. You must live in the home for two of the past five years.

Other nuances:

- You can pass the ownership test and the residence test at different times.
- You may only use the home gain exclusion once every two years.
- You and your spouse can be treated jointly OR separately depending on circumstances.

When to pay attention

You live in your home for a long time. The longer you live in your home, the more likely you will have a large capital gain. Long-time homeowners should check to see if they have a capital gain prior to selling their home.

You have old home gain deferrals. Prior to the current rules, home gains could be rolled into the next home purchased. These old deferred gains reduce the cost of your current home and can result in a capital gains tax.

Two homes into one. Newly married couples with two homes have a potential tax liability as both individuals may pass the required tests on their own property but not on their new spouse's property. Prior to selling these individual homes, you may wish to create a plan of action that reduces your tax exposure.

Selling a home after divorce. Property transferred as a result of a divorce is not deemed a sale of your home. However, if the ex-spouse that retains the home later sells the home, it may have an impact on the available amount of gain exemption.

You are helping an older family member. Special rules apply to the elderly who move out of a home and into assisted living and nursing homes. Prior to selling property, it is best to review options and their related tax implications.

You do not meet the five-year rule. In some cases you may be eligible for a partial gain exclusion if you are required to move for work, disability, or unforeseen circumstances.

Other situations. There are a number of other exceptions to the home gain exclusion rules. This includes foreclosure, debt forgiveness, inheritance, and partial ownership.

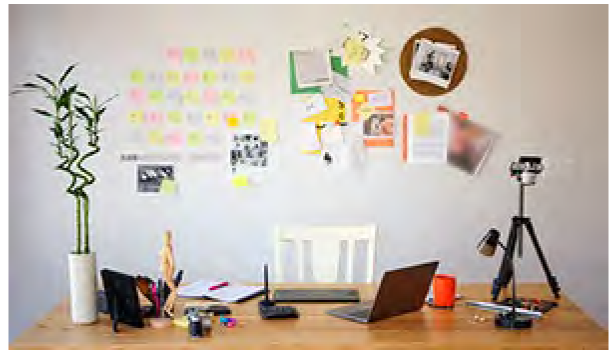
A final thought

The key to obtaining the full benefit of this tax exclusion is in retaining good records. You must be able to prove both the sales price of your home and the associated costs you are using to determine any gain on your property. Keep all sales records, purchase records, improvement costs, and other documents that support your home's capital gain calculation.

Making Your Home Office a Tax Deduction

The home office deduction is a great tax break for the millions of Americans who are now working from home, either occasionally or full-time. But there's one huge catch…you can't be an employee!

That's right, if you're working from home for an employer, you normally can't deduct your office



expenses.

Here's a quick look at the basic requirements to be able to deduct your home office expenses, along with some suggestions for how to qualify for the deduction and turning your home office into a tax planning opportunity:

The basics

There are two requirements for having a tax-deductible home office:

> **Your home office is only used for business purposes.** Your home office must be used exclusively for operating your business. It can't double as the family media center or living room. To meet this requirement, set up your office in a separate area of your house. Then if you get audited by the IRS, there is no doubt that your office is used exclusively for business purposes.

> **Your home office is your primary place of business.** You need to demonstrate that your home office is the primary place you conduct your business. The IRS has clarified that you can meet clients and conduct meetings at separate office locations, but your home office must be the only location where your administrative work is completed. So if you meet with clients or work on any part of your business away from your home office, keep a journal of each specific activity undertaken and describe how it doesn't violate the primary place-of-business rule.

Looking at these two criteria, everyone that is now required to work from home probably meets both qualifications.

Qualifying for the deduction

While it usually makes little sense to move from an employee to a contractor simply to get a home office deduction, too many ignore the move when it could be available to them. Here are some ideas.

> **Become an independent contractor.** The easiest way to deduct your home office expenses is by switching from being an employee to an independent contractor. With a number of firms cutting pay and benefits due to the pandemic, it may be worth exploring. If you can meet the IRS requirements for becoming an independent contractor, it may be worth doing the math by considering all the deductions your home office may make available to you and comparing

them to the cost of lost benefits as an employee.

Start a side business. If becoming an independent contractor for your current employer isn't an option, consider starting a side business. You can deduct all business-related expenses on your tax return, including your home office expenses. If you go this route, ensure your home office is in a different location in your home than your other work space.

Consider your entire household. Even if you don't qualify for the home office deduction, maybe someone else living in your home does qualify. So look into your options to see if a family member can take advantage of the home office deduction.

Figuring out how to properly deduct your home office can be a lot more complicated than it appears. If you need help, please call.

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

PAST ISSUES

April 2022	March 2022	February 2022	January 2022

This newsletter is provided by

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