HEALEY & ASSOCIATES
Certified Public Accountants and Consultants

Chart your course

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Inside this issue

Tax & Business letter
WINTER 2024

Be prepared for changes in business taxes

The business tax landscape is entering a time of uncertainty. While tax rules contained in the Tax Cut and Jobs Act are set to expire at the end of 2025, a new administration in Washington will press its tax agenda. Until the dust settles, you will still need to plan! Here are some ideas to consider.

Ideas for your business

- **Review your business tax rates.** With potential changes to individual tax rates applied to flow through earnings, it may be worth reassessing whether your current business structure (C Corp, S Corp, LLC, Partnership or Sole Proprietor) is optimal. The current 21% corporate tax rate could be lowered, while individual tax rates are currently scheduled to return to higher levels with a maximum rate of 39.6%.
- **Review Qualified Business Income (QBI) deduction.** Pass-through entities like LLCs, partnerships, and S corporations should be prepared if the 20% QBI deduction is allowed to expire. But remember, this tax benefit exists through the end of 2025 and may be extended.
- **Accelerate income.** Consider accelerating income into 2025 if you anticipate a higher tax rate in 2026. This could include selling appreciated or fully-depreciated assets, realizing capital gains when converting an S Corporation to a partnership or LLC, or asking a customer to pay on an invoice to benefit a lower tax year.
- **Delay deductions.** If possible, defer deductions into the year that has a higher tax rate to maximize the deduction's value. Examples include delaying the purchase of new capital equipment, deferring the write-off of inventory or accounts receivable, and timing the payment of accounts payable or other liabilities. Remember to include the changes in bonus depreciation rules when making your capital decisions.
- **Consider tax-efficient investments.** Because of the uncertainty surrounding tax rates in 2026, be mindful of your business's investments to be as tax efficient as possible. Municipal bonds and tax-deferred plans like 401(k)s and IRAs could become more attractive after 2025. Also consider tax-loss harvesting strategies to offset future gains.
- **Consider the expiration of individual tax provisions.** Some individual tax provisions, such as lower individual income tax rates, higher estate tax exemptions, higher standard deductions, and reduced itemized deductions, are set to expire. These changes may affect business owners who report their business income on their individual tax return.

Paying attention is key

As things stand, 2026 will bring significant change to the tax landscape for businesses. It is more important than ever to stay current with any changes. And don't forget, we'll also be here to keep you informed. ♦

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Here are some ideas to help you prepare for filing your business's upcoming tax return:

- **Identify all vendors** who require a 1099-NEC and a 1099-MISC. Obtain tax identification numbers for each vendor if you haven't already done so. Copies of Form 1099 must be sent to your vendors by January 31, 2025.
- **Be prepared to receive a Form 1099-K** from each payment processor from whom you have received payments in 2024.
- **Organize your records** by major categories of income, expenses, and fixed asset purchases. If your accounting records are accurate, then any tax form, including a 1099-K, will be easy to tie out to your books.

Interest rates unchanged for fourth quarter of 2024

Interest rates for the fourth quarter in 2024 remain unchanged compared to last quarter. These rates include: 8% for overpayments (7% for corporations); 5.5% for the portion of a corporate overpayment over $10,000; 8% for underpayments and 10% for large corporation underpayments. ♦

Tax CALENDAR — WINTER 2024

January 15, 2025

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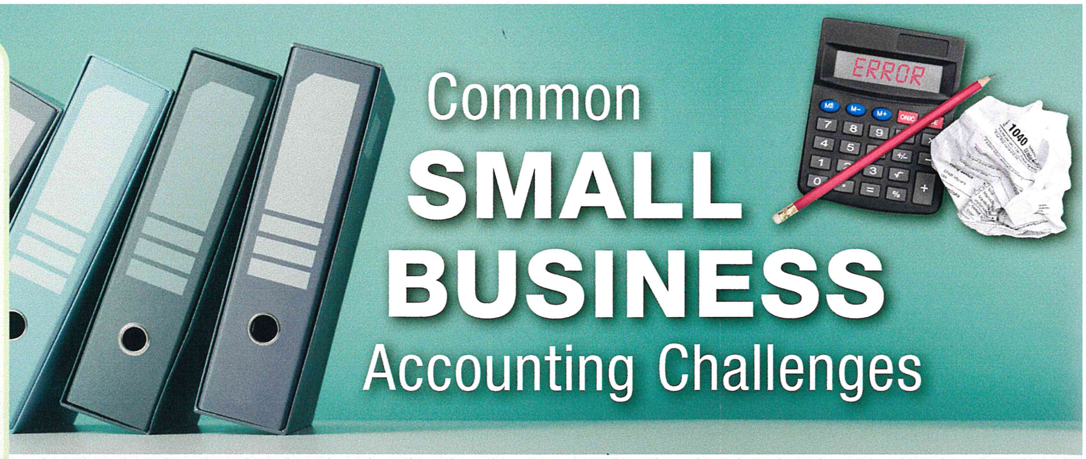

Common SMALL BUSINESS Accounting Challenges

Keeping your company books in order can be a challenge. Consider these common accounting problems often seen when preparing business tax returns to ensure they do not happen to your business:

1 Mixing in personal expenses

Having non-business costs included in your business accounts creates several problems. First, your financial statements will not accurately portray your business performance. Second, personal expenses are a drag on your available cash. Third, the IRS is quick to deny legitimate business expenses as tax deductions if it perceives that personal expenses are blended with business expenses. Common sources of non-business expenses to watch for are charges you make on credit cards and expense reimbursements to owners.

2 Not keeping your books current

Waiting too long to record information in your accounting system actually requires more time to get back on track. Complex entries get even more complicated as your ability to recall transaction details diminishes over time. Set a goal to have transactions entered each week.

3 Entering capital assets as expenses

Because capital assets provide long-term value, they are entered on the balance sheet and depreciated over multiple years. Misclassifying a capital asset as an expense will torpedo your net income for that period and potentially create an audit problem. To avoid this, review large purchases and comb expense accounts likely to be hiding capital assets during your month-end review.

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When you receive your bank statements, ensure they are reconciled to your books within a week or two. Bank reconciliations almost always identify errors. Delaying bank reconciliations will add unneeded complexity and decrease your chances of correcting an error in a timely manner.

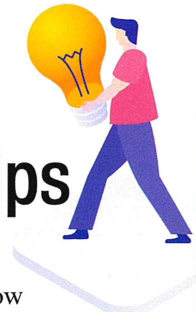
5 Mishandling sales tax

Many businesses incorrectly record sales tax they receive as revenue. Sales tax you receive is entered as a liability until you remit it to the proper tax authority, ultimately avoiding your income statement altogether. This is because it is not your money. That money is held in trust for each respective state. On the other hand, sales tax you pay on purchases is booked as an expense.

6 Retaining proper documentation

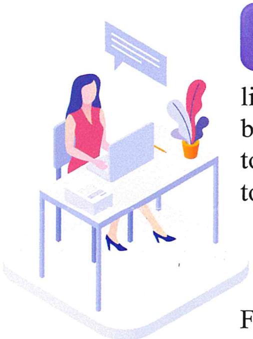
Most businesses retain invoices and receipts for sales and purchases, but what about documentation for adjustments and journal entries? Proving these is just as important. Contracts, time sheets and shipping documents are some examples of substantiation required to support your journal entries. ♦

Tips to build solid customer relationships



If your company provides stellar service and outstanding products, your loyal customers will grow exponentially over time. On the other hand, when customers complain, your company's reputation can be damaged.

Here are some tips to help your team build solid customer relationships:



Provide a human touch

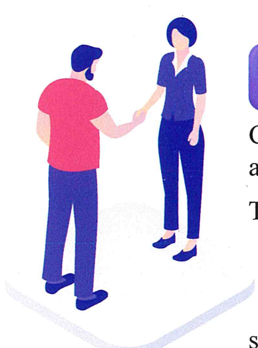
When busy, it's easy to develop checkout lines or calling queues. This frustrates all customers, both those with concerns and those that simply want to order. The net result is everyone is unhappy! Try to be responsive by quickly providing a human touch to all customers who reach out to your customer care team by creating a simple auto-response recording to get customers to the right area. For retail businesses, make eye contact, smile, and invite feedback.

View feedback as an opportunity to improve

Most customers understand that your business is not perfect. What can make a difference, though, is being responsive when problems *do* occur.

With every complaint, first acknowledge the customer's feelings. Then repeat the problem back to them to ensure you understand. Next, offer a solution or ask how they might wish the problem be solved. Look at these unhappy customers as a potential source for positive referrals when they are thrilled you listened and solved their problem.

At this point, view the feedback forum as communication to other, future customers. Let them see you are reasonable, even if the complainer is not. Finally, distill the problem and take action, if appropriate, to improve your product or service.



Show respectfulness even if it's not reciprocated

Customers need to feel that the company is trying to address their concerns.

Train workers to remain calm. Use the same techniques as outlined in responding to feedback. Most people respond better when the situation is handled calmly, respectfully, and when you give the sincere impression you are listening.

Finally, remember not every customer is right. There are some customers you will never satisfy. When you find one of them, have gratitude that you discovered them, and agree to never do business with them in the future as neither of you will be happy with a continued relationship. ♦

CASH FLOW CORNER

Cash-handling rules to protect your business

Cash theft ranks as one of the most common frauds perpetrated on small businesses, according to the Association of Certified Fraud Examiners (ACFE). To ensure your business is protected from theft, develop and implement a strong cash-handling policy. Here are some ideas to help create a working policy to protect your cash.

- **Keep duties separate.** If one employee receives cash, someone else should prepare or oversee preparation of the cash deposit. A third person may record transactions in the company books. Although such separation of duties can be hard to implement in a company with few employees, creative owners can find ways to prevent such transactions from being concentrated in the hands of a single person. For example, you might cross-train staff so that today's accounting clerk is tomorrow's cashier. Or a supervisor might periodically assume one of those functions.
- **Document cash transactions.** Develop a cash count sheet that records the names of people removing money from the safe. Also document the date and time money is transferred for deposit. Include signature lines for both employees involved in the task. Have another employee routinely compare deposit slips and bank statements with cash count sheets. When cash is placed in the safe, record transactions with a similar detailed record.
- **Store cash securely.** Lock cash registers when not in use. Minimize cash on hand by requiring employees to periodically transfer excess cash to point-of-sale (POS) safes. Because such a system allows for one way access only, it helps prevent cash skimming. POS safes should be unlocked only when cash is transferred to the back office safe. Limit safe combinations to authorized employees and ensure that combinations are routinely changed.
- **Conduct internal audits.** Employees should expect their cash-handling activities to be scrutinized. Inform staff that there will be surprise cash audits and detailed, ongoing reviews of company books. If your company uses a currency counting machine, you might also print and review a sample of cash-count reports.
- **Communicate policies.** Develop and maintain written cash policies and procedures. Post it throughout the workplace. Discuss it with new hires and share it in staff meetings.
- **Hire wisely and train.** Conduct thorough background checks. Once staff are on board, train them to implement your cash-handling policy until it becomes second nature. ♦

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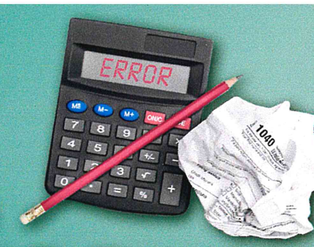

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