



AUGUST 2019

Summer is starting to wind down and the kids will soon be headed back to school. Now is a great time to review if you've had, or will have, any special taxable events this year. The first article highlights five taxable items that come as a surprise to many people. This month's newsletter also includes spending traps to avoid when headed to the fair, ways to manage the burden of student loan debt, and cash flow strategies that can save your business.



I Owe Tax on That?

**Smart Tactics to Manage
Student Debt**



5 Surprising Taxable Items

Wages and self-employment earnings are taxable, but what about the random cash or financial benefits you receive through other means? If something of value changes hands, you can bet the IRS considers a way to tax it. Here are five taxable items that might surprise you:

- 1. Scholarships and financial aid.** Applying for scholarships and financial aid are top priorities for parents of college-bound children. But be careful - if any part of the award your child receives goes toward anything except tuition, it might be taxable. This could include room, board, books, travel expenses or aid received in exchange for work (e.g., tutoring or research). **Tip:** *When receiving an award, review the details to determine if any part of it is taxable. Don't forget to review state rules as well. While most scholarships and aid are tax-free, no one needs a tax surprise.*
- 2. Gambling winnings.** Hooray! You hit the trifecta for the Kentucky Derby. But guess what? Technically, all gambling winnings are taxable, including casino games, lottery tickets and sports betting. Thankfully, the IRS allows you to deduct your gambling losses (to the extent of winnings) as an itemized deduction, so keep good records. **Tip:** *Know when the gambling establishment is required to report your winnings. It varies by type of betting. For instance, the filing threshold for winnings from fantasy sports betting and horse racing is \$600, while slot machines and bingo are typically \$1,200. But beware, the gambling facility and state requirements may lower the limit.*
- 3. Unemployment compensation.** Unfortunately, the IRS doesn't give you a break on the taxes for unemployment income. Unemployment benefits you receive are taxable. **Tip:** *If you are collecting unemployment, you can either have taxes withheld and receive the net amount or make estimated payments to cover the tax liability.*
- 4. Crowdfunding.** A popular method to raise money for new ventures or to support a special cause is



According to the Federal Reserve, U.S. student loan debt is now \$1.5 trillion with more than 44 million borrowers. Only mortgage debt currently has bigger numbers among types of consumer debt. Even worse, more than 10 percent of these loans are past due. Here are some tactics to help make student debt easier to manage:

- Know the loan terms. Not all student debt is created equal. Understanding the terms of all your student loans is important. With this knowledge, select the correct loan option and know which loan to pay first. Things you should know about each loan include: Suggestion: Create a spreadsheet with a student loan in each column. Then note the terms under each loan. This will create a strong visual of your situation and show you which loans are most important.
 - The interest rates
 - The term of the loan
 - Amount of any upfront fees
 - Pre-payment penalties (if any)
 - When interest and payments start
 - Payment amounts
 - Payment flexibility

crowdfunding through websites. Whether or not the funds are taxable depends on two things: your intent for the funds and what the giver receives in return. Generally, funds used for a business purpose are taxable and funds raised to cover a life event (e.g., special causes or medical assistance) are considered a gift and not taxable to the recipient.

Tip: *Prior to using these online tools to raise money, review the terms and conditions and ask for a tax review of what you are doing. If you need to account for taxes, reserve some of what you raise for this purpose.*

5. **Cryptocurrency.** Cryptocurrencies like Bitcoin are considered property by the IRS. So if you use cryptocurrency, you must keep track of the original cost of the coin and its value when you use it. This information is needed so the tax on your gain or loss can be properly calculated. Remember, the tax rate on property can vary if you own the cryptocurrency more than a year, so record all dates. **Tip:** *For those considering replacing cash with things like Bitcoin, you need to understand the gain or loss complications. For this reason, many people using cryptocurrency do so for speculative investment purposes.*

When in doubt, it's a good idea to keep accurate records so your tax liability can be correctly calculated and you don't get stuck paying more than what's required. Please call if you have any questions regarding your unique situation.

Cash Flow Concepts That Can Save Your Business



A sad and oft-repeated truth is that half of all new businesses fail within the first five years. Although many factors contribute to business failure, a common culprit is poor cash management. All businesses, large and small, must deal with the uncertainty of fluctuating sales,

- How the interest is calculated
- Avoid accruing interest. Some student loans accrue interest while you are in school. With the compounding of this interest, your student loan amount continues to grow with each passing year before repayment begins. Banks love this - you should not. Suggestion: Figure out how to make some or all of the interest payments while in school. This will not only lock the amount you owe; it will reduce the amount of overall loan payments.
- Pay a little extra in the early days. The math of loans benefits banks in the early years of the repayment period. This is because the vast majority of interest is paid in the first years of repayment. By the time you get to the last year of repayment, payments are primarily the principal balance and interest is nil. Suggestion: Pay extra every month as soon as payments start. While this seems impossible as you enter the workforce, even \$25 extra per month can dramatically reduce the amount of total payments you make over the life of your loan. For example, a \$25 extra payment on a 10-year \$50,000 student loan with 5 percent interest would cut six months off the loan, save \$834 in interest, AND save \$3,180 in future loan payments!
- Make small cuts elsewhere. Having a hard time finding a few extra dollars to make extra payments? Consider observing and then changing your spending habits. Suggestion: Purchase one less latte a week. Drop one monthly service from a bill. Eat in more often.

inventories and expenses. Follow these practices to moderate the ebb and flow of cash in your business:

- **Analyze cash flow.** If you don't know it's broken, you can't fix it. The starting point for any meaningful action to control cash is discovering where the money's coming from and where it's going. Get a handle on cash by monitoring your bank accounts for at least one complete business cycle; then use that information to establish a realistic forecast. This should be done throughout the year to help you understand your seasonal cash needs.
- **Monitor receivables.** Extending credit to risky customers, failing to identify late payers, refusing to collect payment on a timely basis — these practices amplify cash flow problems. Mitigate receivable fluctuations by generating aging reports. Use the report to follow up when payments are late. You may even wish to offer discounts to customers who pay early.
- **Slow down payments.** Prudent cash flow management dictates that you retain cash as long as possible. So, pay your vendors on time — not too early. Of course, if suppliers offer discounts for early payment, take advantage of cost savings whenever possible. Also consider negotiating with suppliers to extend payment terms.
- **Time large expenses.** If you know a property tax payment is due in May, start setting aside money in a separate fund in October. The same holds true for any large payment that comes due during the year. If your equipment is nearing the end of its useful life or your roof is showing signs of wear, start saving now. Don't let big expenditures catch you by surprise.

By taking these steps and endeavoring to smooth out cash fluctuations, proficient managers keep their companies strong throughout the business cycle.

Business Advice: Every Impression Matters

Then use these savings as a bonus payment on your student loan principal.

While student debt is often an unavoidable outcome of getting a college education, it can be minimized if actively managed. Small changes can yield results if planned for in advance.

No Excuses. Time to Lower Your Tax Bill



It's easy to push tax planning to the sidelines when tax laws are ever-changing and hard to understand. Here are some common (but often unfounded) reasons for avoiding tax situations, plus tips to help get past them and start paying less tax this year:

- **It doesn't make a difference.** This point of view is especially problematic in years with unique situations. Even in uneventful years, external forces like new tax laws can be managed if planned for in advance.
 - Selling a house? You can avoid taxes if primary residence requirements are met.



With competition abounding for virtually every product or service, businesses need to hone every advantage available to them. One of the ways you can set your business apart from the pack is to create an awesome customer experience starting with the first interaction that continues through the entirety of the relationship. How does one foster this level of customer service? Here are four steps to help you get there:

- 1. Make a great first impression.** The first impression a potential customer gets about your business can come from many different avenues. Strive to make all of them impressive. Is your website fresh? Are your customer service reps easy to talk to on the phone? Does your social media offer timely, relevant information? Is your lobby clean and organized? All details matter. A poor initial impression may drive your potential customer to the competition without a second thought.
- 2. Manage the outcome.** With every customer interaction, there are three potential outcomes: positive, negative and neutral. In all cases, your goal must be to leave them feeling positive about your business. Unfortunately, many businesses limit themselves by removing the positive outcome right off the bat. For example, assume you receive a call from a customer looking to hear about a new service. The employee that handles the service is not available and you are limited in your knowledge. The worst thing you can say is, "I'm sorry, the person responsible for the service is not here at the moment." In the customer's mind, you immediately removed the possibility of a positive outcome! Instead, engage the customer to hear about their needs, gather as much information as possible and commit to finding the answers for them and calling them back immediately.
- 3. Search for useful feedback.** No matter how well you strive to offer top-notch customer service, there will always be some instances that are less than favorable. Oftentimes, customers are more than willing to tell you about it, but you need to have a system in place if you want to hear the story in a helpful way. This can be as simple as response cards at the front desk or an automated email campaign looking for feedback. Encourage loyal

- Starting a business? Choosing the correct entity can save you a bunch of taxes.
- Getting ready to retire? Properly balancing the different revenue streams (part-time wages, Social Security benefits, IRA distributions and more) has a huge impact on your tax liability.
- **It's out of your control.** Timing is important when it comes to minimizing taxes, and the timing is often in your control. Bundling multiple years of donations into one to get a deduction, holding investments over one year to get a lower tax rate, and making efficient retirement withdrawals are just some examples of prudent tax strategies that you control.
- **There's not enough money.** There are tax strategies to be implemented at all income levels, not just those at the top of the tax bracket. Tax deductions are available for student loan interest, IRA contributions and others even if you claim the standard deduction. Certain tax credits (called refundable credits) will increase your refund even if you don't owe taxes. Missing any of these tax breaks can unnecessarily increase your taxes.
- **I only need help at tax time.** When the standard deduction doubled in 2018, many people assumed they could kick their feet up and wait for a big refund. That assumption proved to be false for a large number of taxpayers when their refunds came in lower than expected or turned into a tax bill. Don't let this happen to you! Every year has its own set of

customers to let you know how you are doing so you get a holistic view of your performance.

4. **Turn problems into opportunities.** Knowing your strengths can reaffirm your approach and help you set customer service performance goals. On the other hand, learning about a bad experience from a customer's perspective will give you great insight into how you can improve. Use these problems to focus your activity. Over time the results of this continual improvement can have a tremendous impact on your business.

Creating a culture that excels at customer service is attainable if you put in the effort to know your customer's needs and understand that every impression matter!

changes and challenges that you should plan for well before tax time rolls around.

- **It's too overwhelming.** Tax planning is often as simple as looking for ways to reduce taxable income, delay a tax bill, increase tax deductions, and take advantage of all available tax credits. The best place to start is to bolster your level of tax knowledge by picking up the phone and asking for assistance.

Thankfully, it's not too late to get on track for 2019. If you haven't scheduled a tax-planning meeting, now is a great time to do so.

EXCITING COUTO DEFRANCO NEWS:



Six consecutive years!

Nelson Couto and Anthony DeFranco have been chosen as FIVE STAR Wealth Managers for the sixth consecutive year!

Nelson Couto, CPA, CFP[®], and Anthony DeFranco, CPA, CFP[®], MS (Taxation) of Couto DeFranco, P.A. have been named as 2019 Five Star Wealth Managers and will be featured in the Wall Street Journal, February 27th issue. Out of the 6,097 wealth managers in New Jersey who were seriously considered for the award, 477 were named. This is their sixth time winning this prestigious award. Nelson and Anthony were previous recipients of the award beginning in 2013.

"We are thrilled to be chosen as a Five Star Wealth Manager by New Jersey Monthly, and extremely proud that the work we have done for our clients has been recognized," says Anthony DeFranco.

Couto and DeFranco are regarded as leaders in the field of wealth management. They combine their knowledge of financial services with over 25 years as CPAs, helping their clients with their wealth management and tax planning needs, along with assisting them with their financial goals and aspirations.

They believe the best way to help clients reach their financial goals is simple: to listen. "It is important to listen to where they are today and where they want to be tomorrow," says Nelson Couto. The partners feel that clients are paying them for their knowledge—both as NJ Certified Public Accountants and as Certified Financial Planner[™] professionals—so it is their responsibility to develop a financial strategy that is sound, objective and honest. This model has been their secret to success.

Nelson Couto and Anthony DeFranco, established the NJ CPA firm of Couto DeFranco, P.A. in 1992 and are located in West Orange, N.J. The firm serves individuals, businesses, estates and trusts. For more information on their full suite of accounting, wealth management, tax preparation and planning services, please call 973-325-3370 or visit the company's website at

<http://www.accountants-nj.com>



