COUTO DEFRANCO, P.A.
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS
ONLINE ADVISOR

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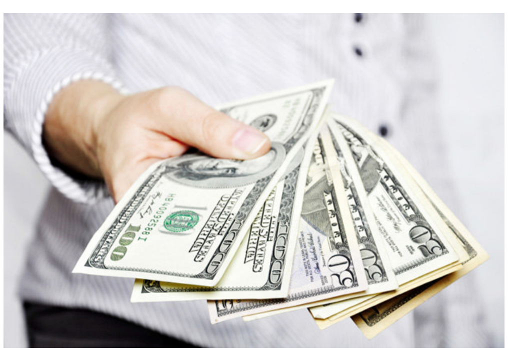
To help celebrate this holiday season and momentarily forget about potential supply shortage frustrations you may encounter while shopping, this month's newsletter features recent tax court cases that have great tax messages for all of us, five great money tips, and ideas to help your business prepare for surprise expenses.

Please call if you would like to discuss how this information could impact your situation. If you know someone who could benefit from this newsletter, feel free to send it to them.



Five Great Money Tips

Creating a sound financial foundation for you and your family is anything but easy. With low interest

Upcoming

rates as an incentive to borrow more and even lower interest rates on savings accounts is it any wonder that it's tough to retain the discipline to save? Here are five thoughts that may help.

1. **Pay yourself first.** Treat saving money with the same care you pay your bills. Take a percentage of everything you earn and save it. Using this technique can help build an emergency fund and keep you from living paycheck to paycheck.
2. **Know and use the Rule of 72.** You can roughly calculate the number of years compound interest will take to double your money using the Rule of 72. Do this by dividing 72 by your rate of return to estimate how long it takes to double your money. For example, 10% interest will double an investment in 7.2 years; investments with an 8% return will double in nine years. Use this concept to understand the power of saving and investment.
3. **Use savings versus debt for purchases.** Unpaid debt is like compound interest but in reverse. For instance, using a 12% interest credit card to pay $1,500 for home appliances costs over $2,000 if paid back over 5 years. The result is that you have to work harder and earn more to pay for the items you purchase. A better idea may be to save and then buy your dream item.
4. **Understand amortization.** When a bank loans you money, it gives you a specific interest rate and a set number of years to pay it back. Each payment you make contains interest as well as a reduction of the amount owed, called principal. Most of the interest payments are front-loaded, while the last few payments are virtually all principal. Making additional principal payments at the beginning of the loan's term will decrease the amount of interest you pay to the bank and help you pay off the loan more quickly.
5. **Taxes are complex and require help.** Tax laws are complicated. They are made even more complex when the rules change, often late in the year. Even worse, the IRS is not in the job of telling you when you forget to take a deduction. The best way to stay out of the IRS spotlight AND minimize your taxes is to ask for help.

dates:

Nov 28 - Dec 6

- Hanukkah

December 25

- Christmas Day

December 26

- Kwanzaa begins

January 18

- 4th Quarter Estimated Payments Due

Take final year-end actions

- Deductible gifts
- Capital gains/losses
- Charitable giving
- Dividend income

Surprise Bills:
Prepare Your Business for the Unexpected

Getting a bill for an unexpected expense can put a significant dent in your business's cash flow. Here are some tips your business can use to deal with a surprise bill.

- **Stick to a reconciliation schedule.** The best advice is to be prepared for the unexpected. Do this by knowing how much cash you have in your bank account at any given time. This is done by sticking to a consistent bank reconciliation schedule. Conventional wisdom suggests reconciling your bank account with bills paid and revenue received once a month. But if your business doesn't have that many transactions, you could reconcile once every two or three months. No matter what time frame works for you, be consistent with your review!
- **Create a 12-month rolling forecast.** This exercise projects cash out twelve months. Then each new month you drop the prior month and add another month one year out. This type of a forecast will reflect the ebbs and flows of cash throughout the year and identify times that you'll need more cash so when a surprise bill shows up, you know exactly how it will impact your ability to pay it.
- **Build an emergency fund.** Getting surprised with an unexpected business expense isn't a matter of if it will happen, but when. Consider setting money aside each month into an emergency fund to be used only in case of a significant expense. A longer term goal could be to save enough money to cover 3 to 6 months of operating expenses.
- **Partner with a business advisor.** Even small businesses sometime need help keeping their cash flow in line and avoiding unexpected expenses. Please call if you have any questions about organizing your business's cash flow and preparing for surprise expenses.

Court Is In Session - Notable Tax Court Cases

Despite the COVID-19 pandemic, political unrest and severe weather events, the Tax Court has continued to churn out decisions affecting individual and business taxpayers. Here's a brief sampling of several cases that may be of particular interest.

- **Coming Up Aces.** *(Coleman, TC Memo 146, 10/22/20)* You can generally deduct gambling losses up to the amount of your winnings from gambling activities if you can provide proper documentation. Now the Tax Court has allowed one taxpayer to estimate his expenses absent proper documentation.

  Facts: A compulsive gambler was able to show that he likely spent the money from a $150,000 personal injury settlement in local casinos. The gambler, however, didn't have the usual records to substantiate his claims. The Court allowed an estimated deduction because it was clear he had incurred significant expenses. The gambler was able to net his $350,000 in gambling winnings with $350,000 in estimated gambling losses.

  Tax Tip: Save documentation for all your tax deductions, including gambling winnings and losses. Don't rely on a tax court ruling!
- **Home (Not) Sweet Home.** *(Soboyede, TC Summ. Op. 2021-3, 1/26/21)* Your tax home for deducting travel expenses isn't necessarily the place where you live. It's the general area of your primary workplace.

  Facts: The taxpayer was an attorney with separate law practices in Minnesota and Washington, D.C. He deducted his hotel expenses and other travel costs in the D.C. area. But his records showed he actually spent more than 50% of his work time in or near the D.C. location. The Tax Court concluded that the attorney's tax home is actually in D.C. As a result, he couldn't deduct his hotel and other expenses from the D.C. area.

Tax Tip: You can deduct travel expenses only away from your tax home. If you work in multiple locations, be sure you know which location the IRS considers to be your tax home.

- **Skidding Off The Race Track.***(Berry, TC Memo 2021-42, 4/7/21)* A business can deduct advertising and marketing expenses that are related to its business activities. No write-off is allowed, however, for personal expenses.

  Facts: A father and son who owned a construction company were race car enthusiasts. They deducted expenses for the son's racing activities that were incurred as an advertising and marketing expense of the construction company. The Tax Court disallowed the deduction, ruling the expenses were a hobby expenditure, not an ordinary and necessary business expense that can be deducted for tax purposes.

  Tax Tip: Understand what is considered an ordinary and necessary business expense by the IRS and know whether your activity is deemed to be either a hobby or a for-profit business enterprise.
- **A Slight Understatement.***(Pragrias, TC Memo 2021-82, 6/30/21)* The IRS normally has three years from the due date of a tax return to conduct an audit of that return. This three-year period is extended to six years, however, if the tax return omits more than 25% of taxable income.

  Facts: The taxpayer received $4.9 million from a complex investment but reported only about $1.5 million. The IRS audited the return after three years. Despite the taxpayer's contention that he didn't omit taxable income—he said he merely understated it—the Tax Court ruled that the longer six-year limit applies. And as a general rule, there is no statute of limitations for the IRS when fraud is involved.

  Tax Tip: Understand the applicable statute of limitations with your tax returns.

Please call if you have any questions about these tax court cases or any other circumstances that you think apply to your tax situation.

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