

# ClientLine®

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## FINANCING YOUR NEW SMALL BUSINESS

You'll have to make a lot of decisions when starting a new business. One of the bigger ones will be how you'll fund it. The financing option you choose may have a significant impact on your company's success.

### BANK ON IT

Traditional bank loans may be the first place you look, especially if you have good personal credit. Start with your current bank. They can help you figure out what documents you'll need to qualify and what options you have.

If you have a local community bank or credit union, check with them about borrowing. Their lending requirements might be more lenient because they have a strong interest in economic development within the community.

### ANOTHER AVENUE

If a traditional bank loan isn't an option, consider a loan backed by the Small Business Administration (SBA). The SBA offers

traditional banks a federal guarantee on your loan. This makes it less risky for the bank to lend you start-up money. In addition, SBA loans often come with favorable interest rates and payment terms. Some loans come with continued support to help you start and run your business.



### PUT YOUR FUTURE FIRST

Starting your business means starting your own retirement plan. Consider creating a solo 401(k) or SEP plan and roll over balances from other 401(k) plans or IRAs. Don't be tempted to take funds out of your retirement plan to help start your business. Assuming your business idea is sound, you'll be able to obtain funding elsewhere.

### GRANT MONEY

Check into small business grants available in your community. Grants offer a way to finance your new business without worrying about repaying a loan. Grants are usually provided by nonprofit organizations or government agencies, which sometimes focus on serving specific companies, like minority, women or veteran-owned businesses. Although competition for grants can be fierce, the time you invest in searching and applying for grants can pay off in the long run.

### DON'T USE CREDIT CARDS

With high interest rates and costly late fees, don't be tempted to use credit cards to fund your new venture.

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### RMDs Return for 2021

After being suspended for 2020 via the CARES Act, required minimum distributions (RMD) are back for 2021.

RMDs are required for everyone with a traditional IRA or employer-sponsored



plans like 401(k)s or Roth 401(k)s starting at age 72. If you're turning 72 in 2021, you have until April 1, 2022, to make your RMD. But in each subsequent year, you'll need to take your RMD by December 31. So that means if you delay taking your first RMD until April 1, you'll have two withdrawals in 2022 and that could create a higher tax liability.

RMDs are taxable, so plan to have taxes taken out of your distribution to avoid underpayment penalties.

Failing to take your RMD by the due date comes with a 50% penalty. And if you don't need the money, consider investing the distributions in a taxable account for continued growth or giving the RMD to a qualified charity.

# WHAT TO KNOW ABOUT 401(k)s

One of the common retirement plans offered by employers is a 401(k) plan. These plans make saving for retirement convenient. But make sure you understand the basics so you can capitalize on plan options and determine how your 401(k) fits into your overall retirement strategy.

## ELIGIBILITY RULES

Some employers allow new hires to enroll in the company 401(k) plan on day one, and some even offer automatic enrollment. But employers can have waiting periods of a few months to a year before you're eligible to participate. To get the most from the plan, however, sign up as soon as you're allowed.

## IT'S A MATCH

Many companies offer a matching contribution to employees who participate in the company plan. While amounts vary, matching contributions are usually a fixed percentage on a predetermined portion of an employee's annual salary. For example, an employer may contribute fifty cents for every dollar you contribute, up to 10% of your salary. So if you earn \$60,000 per year, you could receive a \$3,000 annual contribution from your employer, provided you contribute \$6,000 each year.

## KNOW YOUR LIMITS

The IRS places limits on the amount you can contribute to qualified retirement plans each year. For 2021, the limit is \$19,500, but if you're 50 or older you can contribute an additional \$6,500. Any 401(k) plan can set its own contribution limits, which may be less than the IRS limits.

## VESTING

The money you contribute to a 401(k) is yours to keep from day one. But the contributions from your employer may come

with a contingency, also known as a vesting schedule. That means you may need to work for the company for a year or more before you gain 100% ownership of the company's contributions.

## TAKE OUT

Although you may not plan on tapping your 401(k) account before retirement, sometimes life's events require you to do so. Some plans will let you take a loan that you repay with interest over time. Or you may be able to take a hardship withdrawal that doesn't require repayment. But you'll have to pay income tax on the amount withdrawn and if you are under age 59½ there is an additional 10% federal tax penalty. Consider this option as your last resort, because that money will no longer be there to grow for retirement.



## Client PROFILE...

**My retail store has been very successful and time consuming, so I need to hire a bookkeeper to take care of the finances. What questions should I ask candidates to ensure that I hire a competent bookkeeper?**

Hiring a bookkeeper for the first time marks a milestone for a small business. In addition to ensuring the applicant has the right personality and soft skills to be successful in their role with your company, you'll want to make sure the new hire has the technical knowledge required to do the job. When you're interviewing or screening a potential candidate consider asking the following technical questions:

- Do you have experience working in this particular industry?
- What accounting software have you worked with in the past?

- When do we send Form 1099 to vendors?
- How often are payroll tax returns due?
- Does the accounts payable account usually have a debit or credit balance?
- What would you do if your bank reconciliation was off by a few dollars?

Since this person will handle the crucial details of your business, the answers to these questions will let you know if they have the accounting skills you need.

*Client Profile is based on a hypothetical situation.*

*The solutions we discuss may or may not be appropriate for you.*

# CRYPTOCURRENCY BASICS

Cryptocurrency is an alternative form of payment and works through a technology called blockchain, a decentralized processing and recording system making it nearly impossible to counterfeit and it comes with tax reporting requirements.

## REPORTING BASICS

The IRS has stepped up investigations into unreported cryptocurrency income. Your Form 1040 asks whether you transacted in cryptocurrency during the year. Answer truthfully. However, the IRS has stated that if your only crypto activity was using hard cash to purchase cryptocurrency, you can answer this question with a no.



crypto is more like a house than a bank account in the eyes of the IRS. So, when you exchange your digital currency for cash or other goods or services you'll recognize a capital gain. If you held the crypto for a year or less, it's considered

a short-term capital gain which is taxed at ordinary income tax rates. If held longer than a year it will be taxed at capital gain rates. Report your cryptocurrency transactions on Form 8949 and Schedule D.

## IRS VIEWS

The IRS views cryptocurrency as property, not cash. That means

# EMPLOYEE VS. INDEPENDENT CONTRACTOR: WHAT'S THE DIFFERENCE?

Tax rules differ for employees vs. independent contractors, so consider income taxes when you need to hire help for your business.

## HIRE AN EMPLOYEE

The IRS looks at the degree of control you have over a worker's behavior and finances, along with the type of relationship you have. For example, the IRS deems workers to be employees if you control when and how they perform the work, control how they are paid and provide them with supplies to do the job. This means you'll need to collect and pay payroll taxes and abide by federal and state employment laws.



## REMAIN INDEPENDENT

There is no magic set of rules that make a worker an employee or not.

But having a worker sign an independent contractor agreement doesn't automatically mean they're a contractor. You'll need to look at the totality of the relationship between you and the worker. And if you're ever in doubt, you can submit Form SS-8 for the IRS to determine your worker's status.

# ... Q&A

## Q What's a registered agent and does my business need one?

A A registered agent is a person or business designated to receive official documents on behalf of a business. All companies must have a registered agent and it has to be mentioned when the company files with the Secretary of State. The registered agent could be you, as the business owner, another key employee, your corporate attorney or a hired registered agent business. Just make sure it's someone you trust to communicate important information about your business promptly.

## Q What's the difference between interest rates and annual percentage rates?

A Interest rates are the rates you are quoted when seeking a loan. For example, you might receive an interest rate of 6% when purchasing a new \$20,000 car. Your interest expense will be \$1,200 a year.

An annual percentage rate (APR) is a more effective rate to consider when comparing loans. The APR includes not only the interest expense on the loan but also all fees and costs in obtaining the loan. The APR is often expressed as a percentage and generally should always be equal to or greater than the interest rate.

# ClientLine® SHORT BITS...

## > IRS ISSUES REFUNDS

The IRS has issued more than 2.8 million in refunds to taxpayers who paid taxes on unemployment compensation before the American Rescue Plan Act excluded \$10,200 in unemployment compensation for 2020. Approximately 13 million taxpayers may be eligible for adjustments that the IRS will automatically make to avoid needing taxpayers to file amended tax returns.

## > FINANCIAL LITERACY

Fifty seven percent of American adults are financially literate according to a report by Standard & Poor's. Other advanced economies had high levels of financial

literacy. Canada, Germany and the United Kingdom all came in with over 65% adult literacy rates. Understanding basic financial concepts allows people to make informed financial choices about saving, spending and borrowing.

## > 2020 CENSUS DATA

The results of the 2020 census are in. The US has over 331 million residents, with California, Texas and Florida topping the list with the most residents; while Wyoming and Vermont are the least populated. Utah and Idaho saw the largest percentage increase in their populations with 18.4% and 17.3% respectively. Texas saw the largest increase with almost

four million new residents since the 2010 census. There were over 350,000 citizens in the military or working for the federal government overseas.

## > FOREIGN INVESTMENT

In 2018, the US Department of Commerce facilitated \$20.1 billion in foreign investment into the US, which created over 22,000 jobs. The largest foreign investment came from the United Kingdom, Canada and Japan. Forty-five percent of the foreign investment went into the manufacturing industry. As of 2018, a total of \$4.3 trillion has been invested in the US by other countries.

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