

FINANCIAL IDEAS FOR TODAY AND TOMORROW

Footnotes

Tax Consequences of Cryptocurrency

You may recognize the name Bitcoin and maybe even Ethereum, but what about Litecoin, Dogecoin or Ripple? These are just some of the more than 4,500 cryptocurrencies available today. There are tax complications associated with cryptocurrency transactions. Here's what you need to know.

Every transaction has a tax consequence.

The IRS treats cryptocurrency as investment property, like stock, and taxes every transaction as a capital gain or loss. When you pay for something in the traditional manner with U.S. dollars, the IRS doesn't care what the value of the dollar is at the time of the transaction.

For virtual currency purposes, however, the value matters. For example, assume you buy Bitcoin for \$10 and two months later the market value of that Bitcoin grows to \$15 and you spend that \$15 worth of Bitcoin to buy something. You will have a \$5 taxable short-term gain that needs to be reported on your tax return. If you spend a lot of cryptocurrency, tracking the gains and losses can be very complicated.

Laura Monaghan is a partner in our Mason City office.

Big gains mean big taxes, but big losses may be limited.

There is no cap on the amount of taxes you might owe in a single year for gains on the value of cryptocurrencies you sell, while losses might take many years to recoup because of the annual \$3,000 loss limit against income.

Cryptocurrency puts you on the IRS's radar. Virtual currency has caused the IRS to become concerned about potential mistakes and fraud related to reporting cryptocurrency on tax returns. In fact, the IRS is so concerned about you not reporting cryptocurrency activity that the very first question of your tax return, right beneath your name and address, asks if you took part in any virtual currency transactions over the past year.

You are responsible for bookkeeping. It's important to track your virtual currency transactions so you can properly report all gains and losses on your tax return and substantiate all of your transactions in the event of an audit. Some brokerage firms provide 1099's or other reports to assist with reporting virtual currency transactions on your return.

Please contact one of our professionals if you have any questions or concerns about your cryptocurrency transactions.





Hire Your Kids for Tax Savings

If you own or manage a business, have you thought of hiring your children, nieces or nephews? If you do it right, it can be a win-win situation for everyone. The kids will earn some money and gain

valuable real-life experience in the workplace while your business will have some extra help when other staff may be on vacation. If it's a family business, there might even be some tax advantages as well.

Get Your Contractor or Employee Classification Right!

Tax challenges can be VERY expensive. As a small business owner, you may face the issue of whether to classify workers as employees or as independent contractors. Classifying your workers as independent contractors generally saves you money. That's because you avoid paying employment taxes and benefits on their behalf. If the IRS determines that you misclassified your employees as contractors, you could end up paying all of the employ-

ment taxes and benefits that would have been paid over the years. Depending on the size of your workforce, the cost to your business could be substantial.

In determining whether the person providing a service is an employee or an independent contractor, all information that provides evidence of the degree of control and independence must be considered. There are three primary categories of control and

independence that the IRS considers when determining if a worker is a contractor or an employee:

BEHAVIORAL. Does the company control or have the right to control what the worker does and when and how the worker provides their services? If yes, the worker is an employee.

FINANCIAL. Are the business aspects of the worker's job controlled by the payer? This includes things like how the worker is paid, whether expenses are reimbursed and whether the employer provides tools and supplies. If yes, the worker is an employee.

TYPE OF RELATIONSHIP. Are there written contracts or employee-type benefits? If contracts are involved, the worker may be a contractor. If benefits such as a pension plan, insurance and vacation pay are made available, the worker most likely is an employee.

Deciding whether a worker is a contractor or employee can get complicated. There are significant financial consequences for incorrectly classifying a worker. Please call if you have a question about how to classify one or more of your employees.



If your child is doing a valid job and the pay is reasonable for the work, your business can generally claim a normal tax expense for wages paid. Your child will probably pay no or very little income tax on the wages they earned. And if the child is under age 18 and your business is unincorporated, neither your child nor your business will have to pay Social Security

or Medicare payroll taxes in most cases.

To make the arrangement work, follow the following guidelines:

Ensure it's a real job. It could be a simple job, such as office filing, cleaning, packing orders or simple production activities. But it needs to be an actual job.

Treat your child like any other employee. Expect your child to work regular hours and exhibit appropriate behavior. Don't show favoritism or you risk upsetting regular employees.

Keep proper documentation. Keep records of hours worked just as you would for any employee. If possible, pay your child using your normal payroll system and procedures.

Avoid family disputes.

If the arrangement is not working or is disrupting the business, help your child find a job at another business.



The New World of Personal Bank Account Reconciliations

Here's a look at the new world of personal bank account reconciliations and some ideas to use to ensure your bank account is accurate.

The bank reconciliation purpose.

In a nutshell, a bank reconciliation ensures your account is accurate. This is done by comparing all your activity with what the bank is reporting.

The importance of timely bank reconciliations.

There are several reasons for conducting these account reviews on a timely basis:

Catch a mistake by the bank. Banks can make mistakes. Reconciliations help you catch these bank errors. And errors are more common with digital payment systems...often a small transposition or machine misread of a number can create a payment error.

Catch a mistake by you. Yep, it's difficult envisioning making an error, but that happens, too. It is easy to

record the wrong payment amount. The only way to catch this is to look at your account and compare it to what you think you paid.

Catch unauthorized use. If someone hacks into your mobile phone's payment app and spends \$20 of your money, how would you ever find out? Reconciliations uncover fraudulent activity you may have missed.

Properly monitor automatic payments. With monthly payments automatically coming out of your account, it is easy to forget to account for these payments and have less in your account than you think you do. Timely reconciliations also help you identify ongoing payments that should be discontinued.

Tips for reconciling your accounts

Here are some tips for reconciling in the new world of banking.

Reconcile every week (or every day!). Gone are the days when you need to wait for your monthly bank statement in the mail to reconcile your account. Use your bank's online tools to reconcile once a week or even once a day. This will help identify problems as they occur and is especially important in identifying possible hacking or theft.

Use your favorite app to capture your spending. Secure online applications are now replacing the traditional check register. You'll still need to be disciplined to use the online tool when you spend money, so look for an application that is easy to record your spending.

Combine reconciling with budgeting. Use your reconciliations as an opportunity to become better with budgeting your money. Use reporting functions to help classify your deposits and payments. Then compare them with your budget. This moves the discipline from simple reconciliation to a more planned approach of comparing your budget to actual spending.

The way bank reconciliations are done may have changed over the past 20 years, but the vital role they play in maintaining your financial health will never disappear.

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The Gift of Grace

After living under the weight of the pandemic for more than a year and listening every day to the bad news around us, why not look for ways to change the conversation by doing something nice and unexpected for someone else. Here are some creative ideas:

Pay it forward. The next time you are in a drive-through line to pick up food, pay the bill for the car behind you. This unexpected act of kindness is sure to bring a smile.

Become a tutor. Many students find virtual classrooms to be challenging and could use some extra help. And you don't need to be an expert! Even with students re-entering the classroom, your local school may be in need of assistance.

Look to your neighborhood. Every neighborhood has someone who could use help. From single parents to seniors, simple everyday chores could be a real chore for them. It might mean mowing the grass or offering to go shopping to pick up items for them while you are out. And if you're up for it, consider offering

free babysitting services for an hour or two so parents can take a well-deserved break.

Make an elderly friend. Call a local nursing home or assisted care facility and ask if they have a friendship program that connects you with a resident that could use a pen pal. Get your kids to create a card with a picture to go with a short letter they write themselves. Consider regular, in-person visits to say hi to your new pen pals.

Do a good deed daily. This is a great way to create the habit of undertaking daily, random acts of kindness. By doing a good deed every day, your vision will change and you'll see more opportunities to help. Opening a door, picking up trash or helping a single parent who is juggling different tasks are all great examples of this.

Bring back forgiveness. When someone makes a mistake, provide an environment to accept an apology and leave room to genuinely forgive. Continue to be a role model in displaying the act of forgiveness.

Giving the gift of grace is not only rewarding for you, but is also contagious to everyone around you.

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