Second Quarter 2022

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FINANCIAL IDEAS FOR TODAY AND TOMORROW

Footnotes

How Do Virtual Transactions Affect My Taxes?

With the ability to buy almost anything online, the number and types of activities moving to the internet is exploding. It's important to remember that these virtual events often trigger real-world tax implications. Here are some things to keep in mind:

Internet marketplaces. Proceeds from sales of goods and services on internet marketplaces can be taxable income. That's true whether you're a hobbyist or running an online business. Depending on your level of activity, tax rules may limit your deductions. Internet sales may also be subject to sales or use taxes, which vary by state. If the platform is considered a Marketplace Facilitator, sales taxes are collected by the marketplace itself and remitted to the appropriate taxing entities. In other cases, that responsibility may fall on you. So you need to know the difference.

The IRS is watching. New reporting requirements require more reselling activity to be reported to the IRS. So if you resell your sporting event tickets or concert tickets using an online tool, expect the platform to ask you for information about yourself, including your Social Security number. Why? E-bay, StubHub, Ticketmaster and similar platforms must now report a lot of this activity to the IRS via new Form 1099-K reporting rules.

Crowdfunding. If you use crowdfunding platforms like Kickstarter or Indiegogo to raise funds for your business venture or project, the money you receive can be taxable. If you provide a reward in exchange for different amounts, the funds you receive are treated as sales proceeds. Crowdfunding transactions may also be subject to state sales and use taxes. If backers of your venture receive equity in your startup company, those transactions may not be taxable as income, but they are regulated by the Securities and Exchange Commission.

Online fundraising. Funds you receive through an online fundraising campaign to pay for medical bills, disaster recovery or other personal expenses generally are treated as nontaxable gifts.

Social media influencers. It may seem like fun to develop a significant following on social media, but capitalizing on that audience through product endorsements and other influencing activities is treated as business income. Endorsement payments are taxable and so is the value of any products received in exchange for reviews or brand placements in social media posts.

Virtual currency. Payments you receive in the form of virtual currency for goods and services are treated similar to cash transactions and are included in your gross income at fair market value. To add a level of complexity, virtual currency is also considered property, which can result in taxable gains or losses. You will also need to attach the fair market value to that virtual currency as of the receipt date of the currency. When you use the currency, you will need to track a gain or loss on that future transaction.

Please call if you need help sorting out the tax implications of any virtual activity or transaction.

Dennis Muyskens, CPA, is the partner-in-charge of our Mason City office and has extensive experience working with small businesses.

FROM THE PEN OF A PARTNER

Tax Planning During Market Corrections

Hogan - Hansen, P.C. partners with Mariner Wealth Advisors to bring expertise and engaged professionals to offer a full spectrum of wealth management and financial planning services to our clients.

Economic downturns and market corrections can provide opportunities for investors. Though it may be painful to watch your account values decline, it is important to maintain your long-term strategy and be proactive in looking for silver linings within the dark clouds of the current economic environment. This is particularly true regarding Roth IRA conversions.

How Roth IRAs Work

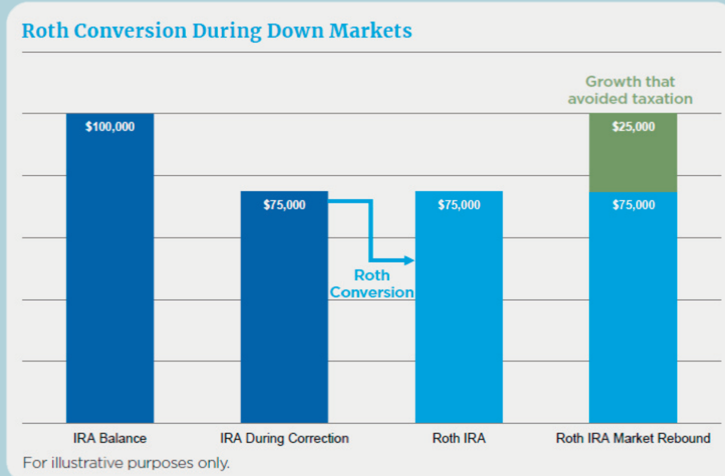
Traditional IRAs, 401(k)s and other retirement savings accounts are funded with pretax dollars—meaning that contributions are excluded from your taxable income in the year they're made. Contributions and earnings are taxed when distributions are taken in retirement.

Roth IRA contributions, on the other hand, don't lower your taxable income. Contributions can be withdrawn tax free, and earnings can be withdrawn tax free after at least five years after you first contributed to the account.

Roth IRAs are attractive to investors who believe that their tax rate could be higher in the future. In addition, they're also appealing when account values are down because the amount being converted—and thus subject to tax—is lower.

Be Ready for a Tax Bill

Roth conversions generate a tax liability that is due for the tax year in which the transaction occurs. Depending on the amount of assets being converted, the tax may be substantial and may even push you into a higher tax bracket. Calculating your tax bill can be tricky, particularly if you own other retirement accounts that are funded with pretax dollars, so it's important to seek advice before doing a conversion.



For illustrative purposes only.

Before completing a conversion, make sure you have adequate funds to pay those taxes and resist the temptation to use a portion of the funds you're converting for that purpose. Doing so will leave you with less to potentially grow tax free in the Roth and, if you are under 59½, the amount withdrawn for taxes will be subject to a 10% early withdrawal penalty. Because there is no limit to the number of Roth conversions an individual can do, many people stagger the conversion process across multiple years to manage the tax impact.

Opportunistic Tax Planning

Imagine a scenario where, at the beginning of 2022, you had $100,000 in a traditional IRA. If you had made a full Roth conversion in January, you would have added $100,000 in taxable income to your tax return. If the balance of your IRA then dropped to $75,000 during the current market correction and you executed a Roth conversion on the lower balance, you would have to pay income taxes on $25,000 less than if had you converted at the beginning of the year.

Meet With Your Wealth Team

Now may be a good time to consider converting a portion of your traditional IRA to a Roth IRA. Contact one of our offices for assistance.

For more information visit:
marinerwealthadvisors.com

Roth IRA conversions are complex and treatment depends on the type of IRA that is being converted to a Roth IRA. The views expressed regarding Roth conversions are for commentary purposes only and do not take into account any individual personal, financial or tax considerations. It is not intended to be a solicitation to buy or sell or engage in a particular investment strategy. Before initiating a Roth IRA conversion, please consult with a financial or tax professional and ensure you consider all your available options, including applicable taxes, fees and features.

If you convert a Traditional IRA to a Roth IRA, the amount of the conversion will be treated as a distribution for income tax purposes and is includible in your gross income (excluding any nondeductible contributions). Although the conversion amount generally is included in income, the 10% early distribution penalty tax will not apply to these conversions, regardless of whether you qualify for any exceptions to the 10% early distribution penalty tax. If you are required to take a required minimum distribution (RMD) for the year, you must remove your RMD before converting to a Roth IRA.

A distribution from a Roth IRA is tax free and penalty free, provided the five-year aging requirement has been satisfied and one of the following conditions is met: age 59½, disability, qualified first-time home purchase or death.

Hustling for Extra Income

Don't forget the taxman!

From supplementing their current income to replacing income that was lost because of layoffs, the pandemic or other reasons, many people have started side hustles over the past two years to help make ends meet.

If you currently have a side hustle, don't forget about the tax implications from earning extra money. Here are several ideas to help you stay on top of the taxes on your side hustle.

ALL INCOME MUST BE REPORTED. Income from side hustles can come from a variety of sources. Regardless of where the money comes from or how much it is, it is required to be reported on your income tax return. If you do work for a company, expect to receive a 1099-NEC or 1099-MISC if you are an independent contractor, or a W-2 if you're an employee.

KEEP GOOD RECORDS AND SAVE RECEIPTS. Being organized and having good records will do two things: ensure accurate tax reporting and provide backup in the event of an audit. Log each receipt of income and each expense. Save copies of receipts in an organized fashion for easy access. There are multiple programs and apps to help with this, but a simple spreadsheet may be all that you need.

MAKE ESTIMATED PAYMENTS. If you are running a profitable side business, you will owe additional taxes. In addition to income tax, you might owe self-employment tax as well. Federal quarterly estimated tax payments are required if you will owe more than $1,000 in taxes for 2022. Even if you think you will owe less than that, it's a good idea to set a percentage of your income aside for taxes to avoid a surprise when you file your 2022 return.

DON'T FALL INTO THE HOBBY TRAP. You won't be allowed to deduct any expenses if the IRS determines that your side hustle is a hobby instead of a business. To make sure that your side hustle is deemed a business by the IRS, you should generally show a profit during at least three of the previous five years.

GET PROFESSIONAL HELP. There are many other tax factors that can arise from side income such as business entity selection, sales taxes, state taxes and more. Please call to set up a time to work through your situation and determine the best course of action for your side hustle.

IRS Increases Standard Mileage Rates

The IRS has announced an increase in the optional standard mileage rates for the final six months of 2022. Beginning July 1, 2022, the rate for business use of an automobile is 62.5 cents per mile. The standard mileage rate for the medical or moving expense deduction is 22 cents per mile. The federal rate for charitable use of an automobile, which is set by law, remains unchanged at 14 cents per mile. The standard mileage rate for business use of a car is an alternative to deducting actual automobile expenses. The IRS normally updates the mileage rates once a year in the fall for the next calendar year. Due to the number of unusual factors that have come into play involving fuel costs, they are taking this special step to help taxpayers, businesses and others who use this rate. Midyear increases in the optional mileage rates are rare. The last time the IRS made such an increase was in 2011.

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NOTABLE QUOTES

Honesty is the first chapter in the book of wisdom.

- THOMAS JEFFERSON

A vacation is what you take when you can no longer take what you've been taking.

- EARL WILSON

You're only here for a short visit. Don't hurry, don't worry. And be sure to smell the flowers along the way.

- WALTER HAGEN

Keep your face always toward the sunshine - and shadows will fall behind you.

- WALT WHITMAN

It is far better to be alone, than to be in bad company.

- GEORGE WASHINGTON

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