BLUE BEAR BLUE RIBBON TIMES

A NEWSLETTER TO INFORM OUR CLIENTS ON THE CURRENT ISSUES AFFECTING THE TAX AND ACCOUNTING WORLD

TRUMP AND THE PAYROLL TAX CUT: WHAT DOES IT REALLY MEAN?

The recent executive decision by President Trump to try to eliminate the payroll tax has not exactly come as a surprise to many economists and politicians. Trump has stated his desire to eliminate the tax for many months. Republicans and Democrats have opposed this for several reasons. One of the main reasons is that the payroll tax is the mechanism through which Social Security funds are collected.

"Social Security is financed through a dedicated payroll tax. Employers and employees each pay 6.2 percent of wages up to the taxable maximum of $137,700 (in 2020), while the self-employed pay 12.4 percent.

In 2019, $944.5 billion (89 percent) of total Old-Age and Survivors Insurance and Disability Insurance income came from payroll taxes. The remainder was provided by interest earnings $80.8 billion (7.6 percent) and revenue from taxation of OASDI benefits $36.5 billion (3.4 percent).

The payroll tax rates are set by law, and for OASI and DI, apply to earnings up to a certain amount. This amount, called the earnings base, rises as average wages increase." - www.ssa.gov

The Payroll Tax also is one of the primary funding mechanisms for the Medicare Part A program. In 2015 the Payroll Tax paid for 88% of Part A funds and accounted for 38% of the total Medicare funding.

However, according to Forbes.com and legal experts, Trump does not have the authority under the Constitution to decide funding matters for the US government, that belongs to Congress. However, certain laws may permit him to defer those taxes. This means that even if his executive order stands (it's already likely to face numerous legal challenges), those deferred taxes would be required to be repaid at some point.

So what does that mean to you? No one knows for sure at this point, but Forbes.com states that "Assuming a complete deferral of Social Security taxes, that means that the average worker will be able to put off paying just under $800 for the term of the deferral, or about $60/week." In the short term, it's a little extra money in the bank that you may have to pay back - only Congress has the authority to forgive taxes due. In the long term it is a cut to Social Security and Medicare that both sides of the aisle have opposed. Keep tuned in, this is not settled law yet!

MID-YEAR BALANCE SHEET VALUE

It's time to tackle your mid-year Balance Sheet! Your business's financial statements help you keep track of how your business is performing. By tracking your assets, liabilities and equity throughout the year you can stay on track to your financial goals and avoid a trainwreck at the end of the year.

Interim financial statements can be a helpful tool to make sure you're staying on the path. These include a balance sheet, profit & loss statement, and statement of cash flows. The balance sheet is what we'll focus on. A balance sheet shows the company's assets on one side and liabilities and any shareholder equity on the right. Beginning with cash and inventory and moving to less liquid assets like property and equipment the line items are listed.

Assets:

- Current Assets: cash and cash equivalents (e.g., short-term government bonds, treasury bills, and money market funds), accounts receivable, and inventory
- Non-current assets: property, plant, equipment, long-term investments, and intangible assets (e.g., patents and licenses)

Liabilities:

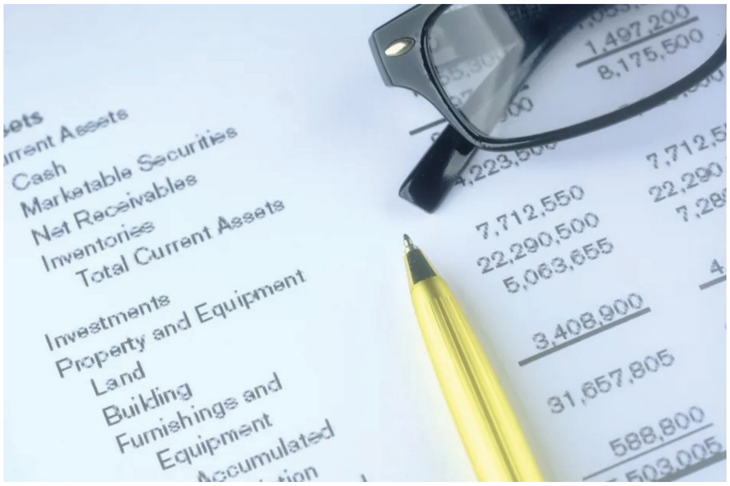
- Current liabilities: accounts payable, notes payable due within the year, and current maturities of long-term debt
- Non-current liabilities: long-term notes payable, deferred tax liabilities, and bonds payable, and long-term debt

Shareholders' Equity

- Share capital: the amount of money a company receives from its shareholders for business purposes
- Retained earnings: the amount of a company's profits that aren't distributed to shareholders as dividends — the funds are reinvested in the business instead

If you're a small business owner with no investors, no external shareholders, and no board of directors, you might think interim financial statements don't apply to your business. But in reality, your business can benefit from interim financial statements even more than larger businesses can—and, chances are, you already receive interim financial statements.

If you receive monthly financial statements from your bookkeeper, or if you schedule regular quarterly or mid-year reviews with your accountant, you're already using a form of interim financial statements. These financial statements tell you how your business is performing right now, as opposed to how it performed over the course of the year.



Reviewing interim financial statements is extremely important for small businesses. Whereas large corporations can often recover from a bad year, that bad year—or even a bad quarter—can spell disaster for a smaller business. Waiting until the end of the year (or worse, the end of tax season) to review your financial statements and identify problems within your business can make those problems much more difficult, or even impossible, to overcome. But financial statements for your small business don't have to be perfect. In fact, you shouldn't expect them to be, unless you're preparing the statements to present to a potential investor or a lender. Rather, the purpose of interim financial statements for a small business is to help the business owner make managerial decisions.

Content courtesy of https://www.fundera.com

The annual gift exclusion is the maximum amount you can give in any calendar year to an individual without needing to pay the gift tax. The annual exclusion is indexed to inflation, so it changes every few years. For 2020, the annual exclusion is $15,000 per person, same as it was in 2019.

WHAT COUNTS AS A GIFT?

- The IRS considers a 'gift' to be any transfer of cash or property in which the donor does not receive anything of equal value in return

- Not all gifts are taxable:
  Example: Making a loan to a friend without charging interest and then forgiving the loan

- Donors can give unlimited amounts to spouses and charities. Donors may also be able to pay for a donee's qualifying medical and tuition expenses without limitation.

- Gifts in excess of the annual exclusion may be subject to gift tax and should be reported on a gift tax return. But tax is rarely due simply because the donor gave more than $15,000 to a single donee during the year.

Coronavirus Information

As of July 16th, Colorado is under a mandatory Mask wearing policy in public areas.

What does that look like?

- When entering or moving within any public indoor space.
- While using or waiting to use public (buses, light-rail) or non-personal (taxis, car services, ride-shares) transportation services.

You are Still Encouraged to Stay Safe!

- Wear a mask in stores and where you cannot safely 'socially distance'. Many stores are requiring masks to enter.
- Avoid large groups of over 10 people for lengthy time periods.
- If you don't feel well, STAY HOME!
- Stay local where possible.
- Be courteous, this has been a long stretch of stressful time for everyone.
- Please check in with the people you work with, clients, even vendors, see how they're doing.

SPORTS IS BACK...Sort of:

Colorado Avalanche - delayed season - Round Robin Cup Series:
https://www.nhl.com/avalanche/schedule/2020-08-01/MT

Colorado Rockies:
https://www.mlb.com/rockies/schedule/2020-08

Denver Nuggets - delayed season:
https://www.nba.com/nuggets/schedule#