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Tax & Business letter

SUMMER 2022

Protect your business with a smart email policy

With an estimated 306 billion emails sent and received each day worldwide, electronic communication is clearly an essential business tool. But in the same way email makes business more efficient, all those data packets traveling in and out of your company's email system pose potential risks to your business.

Know the risks

While leaks of your company's confidential or proprietary information via employee email are always a danger, carelessly worded messages that create legal headaches for businesses are more common. A recent study showed that nearly one in four outgoing emails contains content that pose legal, financial or regulatory risk for your business.

- ***Insert a legal footer.*** *At the bottom of all emails, place a static confidentiality statement for legal protection.*
- ***Create an email policy.*** *Create an email policy and have your legal team review it. Then work to monitor compliance within your organization. Emails are never places to promise pricing or share tax information. Purchase orders and tax returns are where this information belongs.*

Protect your business

Here are some ideas to consider including as part of an email policy to better protect your business.

- Notify employees that the email system is the property of the company and may be subject to monitoring at the company's discretion.
- Require that personal emails be sent only from employees' personal accounts, from their personal devices, and not from a business email address on the company's computer. By the same token, employees should not use their personal email accounts to send messages related to the business.
- Explain best practices for avoiding scams and thwarting cyberattacks, including not clicking on links or downloading documents from unknown senders.
- Prohibit messages that are obscene, discriminatory, harassing or inappropriate, and clearly state the consequences for any violations.

Instituting a comprehensive email policy is only part of an effective protection plan. Monitoring and enforcing those rules and periodic training for all employees are also essential components. ♦

IRS TAX NOTES

IRS reminds employers of penalty relief related to claims for the Employee Retention Credit

Businesses that took advantage of the Employee Retention Credit (ERC) for the fourth quarter of 2021 were left in a bind after Congress retroactively nullified this credit for all wages paid after September 30, 2021.

Because Congress got rid of the ERC for the fourth quarter of 2021, businesses who received a refund due to the ERC now have to repay the refund or be subject to a failure to pay penalty. Businesses who reduced tax deposits in anticipation of taking the ERC are also subject to a deposit penalty.

The IRS announced that they are aware of this quandary, reminding businesses that they may be eligible for relief from penalties if they can show reasonable cause and not willful neglect for failing to pay.

Interest rates increase for second quarter of 2022

Interest rates for the second quarter in 2022 will increase compared to last quarter. These rates include: 4% for overpayments (3% for corporations); 1.5% for the portion of a corporate overpayment over $10,000; 4% for underpayments and 6% for large corporation underpayments. ♦

Tax CALENDAR SUMMER 2022

June 15

❑ Second installment of 2022 individual estimated tax is due.

September 15

❑ Third installment of 2022 individual estimated tax is due.

Cross-training: Great benefits for employers *AND* employees

Have you considered cross-training your employees to ensure more than one person knows all key functions? Here are some ideas for implementing your own cross-training plan. If implemented properly, cross-training can be a win-win situation for both you and your employees.

Why companies cross-train

Cross-training provides greater flexibility in scheduling, especially when dealing with unexpected workload and staffing issues. It also helps employees develop expertise in other areas and increases their awareness of the company's roles and functions — helping them better understand where they fit into the big picture.

Why employees love it

For employees, some of the biggest advantages include:

- Learning new skills
- Working more efficiently and effectively with other departments
- Feeling more invested in the company
- Enjoying growth opportunities

Create your cross-training plan

How you implement cross-training will depend on the size and nature of your business. Consider prioritizing the departments that need and/or want cross-training the most. These departments may be understaffed or have many new employees. Look for important functions that are currently dependent on a single person's knowledge. These areas should be a focus of your cross-training program.

If you're considering cross-training your team, here are a few tips to help you prepare:

- **Document your key processes.** You cannot cross-train if you don't know the process. These written processes will turn into training documents as you implement your program.
- **Communicate to your team.** It's essential to get everyone involved before you start a cross-training program. Help your team understand why the company is cross-training employees. Reasons may be to prepare for organizational growth or new industry standards, or to adjust to a changing structure around roles and responsibilities. Then continue to communicate with your team throughout the program with status updates and team meetings about progress and next steps.
- **Present cross-training as an opportunity.** Your employees may be more resistant to cross-training if it feels like it's an obligation or a threat to their roles. You can help them feel motivated by highlighting the benefits, like honing different skill sets and having a better understanding of how their contributions positively impact the business. ♦

Small changes can mean big gains in employee retention

Finding new employees is a recent challenge for many businesses. One alternative to attracting new employees is trying to hang on to the employees you already have. Here are suggestions to increase employee retention that may appear to be small, but could pay big dividends:

Career direction

Some employees want to know what needs to be done to continue advancing in your company. Consider providing clear career paths for your employees, including long- and short-term goals. When appropriate, align these goals with your business objectives and your employees' roles within the organization.

Real-time feedback

Employees seek frequent, informal feedback. They want to know if they're meeting your expectations. While annual reviews are the historic norm, the document is often put together and then gathers dust for a year. Instead, consider setting quarterly goals and then actively managing to hit those targets and progressively challenging your employees.

Public recognition

Consider giving recognition when appropriate in front of the entire company. For example, take the time to celebrate individual and company successes with an ice cream break or other various treats once a quarter.

Flexibility and freedom

Having autonomy over certain job functions, or when and where work gets done, can be a significant motivator for employees. While working from home can be a good move or a bad one depending on the situation, having clear objectives can help an employer be more flexible about where the work can be done.

Casual and relaxed office environments

For the many documented benefits of working from home, some employees find the in-person office environment more conducive to getting work done. So consider more collaborative office environments including a casual dress code, along with lunch-and-learn opportunities to share information about different departments. ♦

CASH FLOW CORNER

Securing a line of credit gives predictable cash flow

One way to get access to more money for your business is by opening a line of credit. Here are several advantages to using a line of credit over other methods of financing, followed by some tips for getting a line of credit for your business:

- **Better terms than a credit card.** A line of credit typically has a lower interest rate than you'll find on a corporate credit card. This is because you're pledging assets to support the advance on your line, whereas a credit card has lower access to those assets.
- **More flexible than a term loan.** Loans are typically used for larger, one-time capital purchases such as acquiring equipment or real estate. And once you've spent proceeds from the loan, you're locked into a rigid repayment schedule unless you refinance.
- **Ideal for short-term cash needs.** A line of credit is a good solution if your business is seasonal in nature. You can use the line to purchase inventory, then pay it back when the inventory is later sold.

Getting a line of credit for your business

Here are some tips for getting a line of credit for your business.

- **Build a solid profit and credit history.** The best time to apply for a line of credit is when your business has a track record of being profitable and can demonstrate a good credit history. You'll be able to negotiate better interest rates, credit limits, and terms if your business is on solid ground when applying for the line.
- **Remember the bank wants collateral.** Lenders will want assurances that you can repay the line of credit. They do this by creating formulas of how much you can advance against the value of your other assets like receivables and inventory.
- **Be prepared to explain why you need the line of credit.** When applying for a loan, you normally have a specific asset you want to purchase, such as a building or a new piece of equipment. Explaining why your business needs a line of credit is equally important. So be prepared to show your banker how the line will be used by preparing a monthly financial forecast that explains when cash will be withdrawn and when the cash will be repaid.
- **Apply for the line of credit before you need it.** Consider starting discussions with your banker about applying for the line well before you think you need it. The best case scenario is you get approved, as an example, for a $100,000 line of credit that you never end up using. But as the past 24 months have demonstrated to many business owners, you just never know when the next emergency will come around the corner. ♦

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New business information reporting starts NOW

Your business must prepare for new reporting requirements if you accept credit cards, debit cards, or use third-party payment processors like PayPal, Venmo or Stripe. Here is what you need to know.

Background

Starting with the 2022 tax year, your business will receive a Form 1099-K from each credit card company and third-party payment processor from whom you receive $600 or more in payments.

Under the old rules, a payment processor would send your business a Form 1099-K only if you exceeded both $20,000 in payments AND 200 or more total transactions with that particular processor.

Prevent complexity with some planning

Here are two scenarios that could result in a complicated tax picture if you've never received Form 1099-K's.

- ▶ **Double-counting income.** You provide a service for another business in exchange for $1,000. Your customer pays you using Venmo, or another third-party digital payment platform.

  The service provider issues your business a 1099-NEC for $1,000, while the credit card company, PayPal or Venmo also issues your business a 1099-K for $1,000. But wait! If you do receive two 1099s, your income now looks like $2,000, overstating your revenue by 100%!

  What you can do: *Accurately recording your income (and expenses) as they occur throughout the year will make it easier to notice a scenario where you receive a 1099-NEC and a 1099-K for the same income. You will need to pay special attention to record matching transactions on your tax return, while eliminating the potential, duplicate income.*

  In theory, you should never receive a 1099-NEC and a 1099-K for the same payment. According to IRS instructions, payments made with a credit card, debit card or by using a third-party processor must be reported on Form 1099-K, and not on either Form 1099-NEC or 1099-MISC. One or more of your vendors, however, could erroneously issue you a 1099-NEC.

- ▶ **Receiving cash that isn't taxable.** You pick up the entire tab when you and a friend, who is also a customer of your business, go out to a restaurant. Your friend pays you via Venmo for their portion of the bill instead of giving you cash.

  What you can do: *Whenever you exchange money with friends in a digital format like Venmo, have them mark the transaction as non-business. Each application will handle this differently, but it is critical you do this to avoid getting a 1099-K in error. Another idea is to have separate bank accounts for business and personal transactions.*

The new 1099-K reporting requirement will further complicate filing your business's taxes AND processing taxes for the IRS. Your best bet is to prepare now for the upcoming tax filing complexity. ♦

We appreciate your business. Please call any time we can be of assistance to you in your tax, financial, or business affairs.

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