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Keeping meeting minutes has traditionally been thought of as something that only corporations and big businesses need to worry about.

But even if your business isn't required by law to keep meeting minutes, having them can provide valuable supporting evidence in the event of a lawsuit or tax audit.

Here's what you need to know about keeping meeting minutes.

What to record

You should generally record minutes at meetings that involve significant company decisions or actions. This will likely include meetings with executives, directors, shareholders, and officers.

Creating a record of decisions, actions and responsibilities is especially important when any kind of related-party transactions occur (such as payments, loans or distributions between the company and its owners). For example, the IRS may challenge the amount of compensation paid to a business owner as unreasonable. Meeting minutes that document the factors considered by the board in approving the compensation can be a strong defense against such a challenge.

Tips for keeping good minutes

Meeting minutes need not be lengthy, but they must provide a clear record of corporate actions and the business factors that are considered when those actions are taken. Here are some tips to help you take and keep effective minutes:

- **Take minutes!** If you've been lax about taking minutes, now is the time to get back on track. Record minutes for any meeting that involves big decision-making and company actions. These minutes are key for fiduciary and liability purposes.
- **Use a template.** Get in the habit of using the same format for meeting minutes. Using a standardized template will make it easier for the minute-taker, and provide clarity and organization if needed as legal evidence in the future.
- **Include information that matters.** Meeting attendees, absentees, location, and date and time of the meeting are necessary, but your minutes should also include the results of decisions and details about important activity in the company, not just who said what.
- **Sign and approve the minutes.** Make your minutes official by having the appropriate people sign off. This is typically done by the board secretary, and in some cases, the president. The president also usually approves the minutes.
- **Keep minutes in a safe place.** Store meeting minutes in a safe and accessible place. Confirm that only designated people have access to the minutes. ♦

NOTE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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Inside this issue

Tax & Business letter
WINTER 2021

An accountable plan can be a win-win move

Having an accountable plan is a great way for your business to give employees a tax-free benefit that's also deductible for your business. It's now more relevant than ever as employees can no longer deduct unreimbursed expenses and companies are finding it difficult to retain qualified employees.

If you haven't already, consider establishing an accountable plan to offer some financial relief to your workers for this lost tax benefit. Here's what you need to know:

The basics of an accountable plan

An accountable plan is a set of rules a business uses for employee reimbursement of business expenses. It's used to reimburse employees for travel expenses, supplies, tools, and home office expenses that employees initially pay out of their own pockets.

Businesses create accountable plans for two reasons: To ensure reimbursements won't be treated as taxable income for employees and to prevent the need to pay payroll taxes on reimbursements. It's a win-win for both parties.

Understand excess payments

Employers should consider potential excess payment issues that may come up with accountable plans. Typically, an excess payment occurs when a business provides an advance for a business trip and an employee spends less than the advance amount. In this case, the employee will have to return the excess within a reasonable amount of time.

To meet the IRS standard of reasonable time, employees need to:

- Receive an advance within 30 days of the time he or she has an expense.
- Adequately account for expenses within 60 days after they were paid or incurred.
- Return any excess reimbursement within 120 days after the expense was paid or incurred.
- Receive a periodic statement (at least quarterly) that asks to either return or adequately account for outstanding advances and they comply within 120 days of the statement.

Create an audit-proof accountable plan

While an accountable plan does not need to be in writing, a written document can provide an easy-to-follow plan structure in case the IRS ever challenges the tax benefits. A written policy should clarify the time period for employees to submit expenses, the process for requesting reimbursement, the necessary documents to prove a business expense was incurred, the types of expenses that are reimbursable, the maximum amount allowed for various expenses, and any preferred suppliers. ♦

Requirements to keep an accountable plan tax free

While there are tax benefits for both the employer and employee, there are many tax rules that must be followed. Employees need to meet these three requirements in order for an accountable plan to qualify for tax exemption:

- Deductible expenses must have been paid for and incurred while performing services as an employee.
- Expenses must be accounted for and reported to the employer within a reasonable time period.
- Any excess reimbursement or allowance must be returned to the employer within a reasonable time period.

If these requirements aren't met, reimbursements will be taxable income to employees and nondeductible for employers.

IRS TAX NOTES

IRS grants tax relief to farmers and ranchers

Farmers and ranchers who were forced to sell livestock due to drought may have an additional year to replace the livestock and defer tax on any gains from the forced sales, according to the Internal Revenue Service. The relief generally applies to capital gains realized by eligible farmers and ranchers on sales of livestock held for draft, dairy or breeding purposes. Sales of other livestock, such as those raised for slaughter or held for sporting purposes, or poultry, are not eligible.

No change to fourth quarter IRS interest rates

Interest rates for the fourth quarter in 2021 will remain the same compared to last quarter. These rates include: 3% for overpayments (2% for corporations); 0.5% for the portion of a corporate overpayment over $10,000; 3% for underpayments and 5% for large corporation underpayments. ♦

Tax CALENDAR

WINTER 2021

January 18, 2022

- ❑ Due date for the fourth installment of 2021 individual estimated tax.

January 31

- ❑ Due date for employers to provide W-2 statements to employees, and also file Forms W-2 with the Social Security Administration.
- ❑ Due date for payers to provide most Forms 1099 to recipients and report Forms 1099-NEC with non-employee compensation to the IRS.
- ❑ Due date for providers to send Forms 1095 to recipients.
- ❑ Employers must file 2021 federal unemployment tax returns and pay tax due.
- ❑ Due date to file 2021 fourth quarter Form 941 for Social Security, Medicare and withheld income tax.

February 28

- ❑ Payers must file Forms 1099-MISC with the IRS**
- ❑ Due date to file Forms 1095 with the IRS**

March 1

- ❑ Farmers and fishermen who did not make 2021 estimated tax payments must file 2021 tax returns and pay taxes in full to avoid a penalty.

***March 31 if filing electronically*

Business owner salaries under the microscope

Executives in larger firms often rely on their board of directors and the human resources department to establish pay scales, retirement plans, and health insurance policies. In a small company, these decisions fall to the owner.

While there's not a one-size-fits-all formula for determining how much to pay yourself as a business owner, here are three factors to consider:

1 Comparable industry salaries. If you were working for someone else, what would they pay for your skills and knowledge? Discuss salary levels with small business groups and colleagues in your geographic area and industry to see if you're in the ballpark.

Use the Department of Labor and Small Business Administration websites as additional resources to determine your salary. In the early stages of your business, you probably won't draw a salary that's proportional with the higher range of salaries, but at least you'll learn what's reasonable.

2 Your business's cash flow. Does your business have the cash to sustain both day-to-day operations and your reasonable salary? Consider taking the lowest salary possible to cover your basic living expenses and leave more cash for daily business operations. Then give yourself a bonus if the business meets predetermined profitability benchmarks. Keep your financial statements up-to-date throughout the year so you can promptly calculate and pay your bonus at the appropriate time.

3 The age of your business. For mature businesses, there may be more flexibility for how much you can pay yourself and the timing of those payments, for example either taking regular payments throughout the year or a lump sum payment fewer times throughout the year. For startups, owner compensation may be minimal.

Retain documentation to support your salary level in case the IRS challenges your salary as either too high or too low. ♦

New rules for deducting business losses

It's never pleasant to lose money, but business losses are tax deductible. Unfortunately, the rules for deducting losses have undergone multiple changes over the past few years, and more changes could be coming. Here's where things stand now.

Background

If a business's deductions exceed its income, it has a net operating loss (NOL) for the year.

Example: *Michael earned $80,000 in income from his sole proprietorship business, had $100,000 in expenses, and no other income. His NOL is $20,000.*

You'll owe no income tax the year you have an NOL. But you can also use an NOL to reduce taxes in other years when your business does turn a profit.

NOLs for 2018 through 2020

NOLs incurred during 2018 through 2020 can be carried back five years – that is, you can apply an NOL to prior tax years by filing either an amended return or an application for a refund. This enables you to get a quick refund from the IRS for all or part of the taxes paid in prior years. Any remaining NOL is then carried forward indefinitely until used up. NOLs for these years may offset 100% of taxable income to reduce your tax liability to zero.

Example: *Assume that Michael incurred his $20,000 NOL in 2020. He may carry it back to 2015 to reduce his taxable income for that year and obtain a refund of up to 100% of the tax he paid. If he has any NOL amount remaining, it is applied to his 2016 through 2019 tax years in turn. Any remaining NOL is then applied to 2021 and any number of future years. Alternatively, Michael could elect to only carry his NOL forward to 2021 and future years.*

NOLs for 2021 and later

Starting with the 2021 tax year, the NOL rules are much more restrictive:

- ► You may only deduct NOLs for the current year and any number of future years. You may not carry them back to deduct in prior years and get a refund.
- ► NOLs for these years may only offset up to 80% of taxable income for any year.
- ► For 2021 through 2026, NOLs are subject to an annual limit of $262,000 for individual taxpayers and $524,000 for married taxpayers filing jointly. Losses over these amounts must be carried forward.

Example: *Assume that Michael incurred his $20,000 NOL in 2021. He may not carry it back to reduce his taxes for any past years. He may only apply the NOL to 2022 and later to offset up to 80% of his taxable income for any one year.* ♦

CASH FLOW CORNER

Keep cash flowing with these tips

Here are some cash flow management tips for your business as we head into a new year.

- **Pay your bills just in time.** Wait as long as possible to pay your bills and spread your payments during the month as much as possible. Review your bills, sort according to priority, and schedule payment dates so the most important items, like rent and payroll, are paid first.
- **Negotiate terms with suppliers.** Some invoices are due on receipt; others, a few days later. Negotiate the longest payback terms possible and ask for early-payment discounts. A two percent discount might not seem significant, but on bulk orders savings can accumulate. Depending on your industry, you might set up a vendor payment schedule that better reflects your accounts receivable history.
- **Quickly collect receivables.** When a customer places an order, try to get paid as soon as possible by sending invoices promptly, confirm that the invoice was received, and immediately follow-up on past due payments. Also consider discounts to customers who pay quickly, and an option to pay invoices online instead of taking several days or longer for a check to arrive via mail.
- **Track inventory turnover.** The inventory turnover ratio measures the number of times inventory is sold and replaced in a given time period (annually, quarterly or monthly). It's calculated by dividing cost of goods sold by average inventory. Frequently calculating this ratio is a great way to see if you have inventory that has gotten stuck in your warehouse (and ultimately not converted to cash!).
- **Be smart with debt.** As a general rule, consider taking out a loan of no more than 75% of an asset's value, and aim for loan terms that don't exceed the useful life of the underlying asset. Debt can be a valuable tool for growing and sustaining your business, but be careful not to overextend.

Please call if you have questions about how to be better at managing your cash in 2022. ♦