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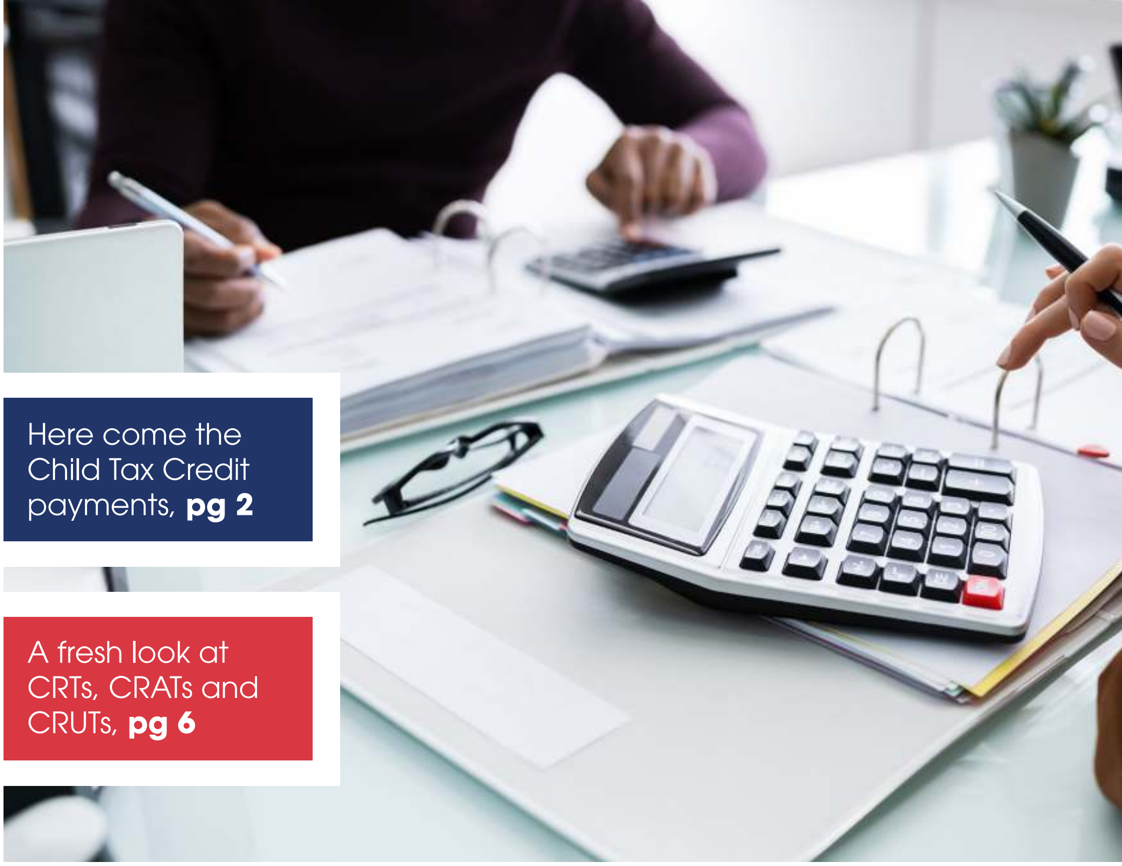
Accounting · Tax · Advisory



Here come the Child Tax Credit payments, **pg 2**

A fresh look at CRTs, CRATs and CRUTs, **pg 6**

Summer 2021 Edition

INSIGHT

ACCOUNTING • TAX • ADVISORY

AN INDEPENDENT MEMBER OF BDO ALLIANCE USA

Accounting Methods:

Private Companies Have Options

Businesses need financial information that's accurate, relevant and timely. The Securities and Exchange Commission requires publicly traded companies to follow U.S. Generally Accepted Accounting Principles (GAAP), often considered the "gold standard" in financial reporting in the United States. But, privately held companies can use simplified alternative accounting methods. What's right for your business depends on its size, regulatory and contractual requirements, management's future plans and the needs of its stakeholders.

Menu Of Accounting Methods

Here's an overview of the accounting methods available for small- and medium-sized entities (SMEs): GAAP. This framework follows rules set forth by the Financial Accounting Standards Board (FASB). It's based on the accrual method of accounting, where revenues and expenses are matched to the reporting period in which they're earned and incurred, respectively. Under this method, companies report receivables for revenue that is earned but not yet collected, and payables for expenses that are incurred but not yet paid. Prepaid (and accrued) expenses are also reported on an accrual-basis balance sheet.

Financial Reporting Framework for SMEs

This framework is rooted in GAAP, but it's adjusted to accommodate the needs of private businesses. Developed by the American Institute of Certified Public Accountants (AICPA), this simplified framework blends traditional accounting principles with accrual-basis income tax accounting methods. This non-GAAP framework is based on historic costs, steering

continued on pg 3

Here Come the Child Tax Credit Payments:

What You Need to Know

The first advance payments under the temporarily expanded child tax credit (CTC) will begin to arrive for nearly 39 million households in mid-July 2021 — unless, that is, they opt out. Most eligible families won't need to do anything to receive the payments, but you need to understand the implications and why advance payments might not make sense for your household even if you qualify for them.

Understanding the CTC, Then and Now

The CTC was established in 1997. Unlike a deduction, which reduces taxable income, a credit reduces the amount of taxes you owe on a dollar-for-dollar basis. While some credits are limited by the amount of your tax liability, others, like the CTC, are refundable, which means that even taxpayers with no federal tax liability can benefit. Historically, the CTC has been only partially refundable in that the refundable amount was limited to $1,400.

The American Rescue Plan Act (ARPA) significantly expands the credit, albeit only for 2021. Specifically, the ARPA boosts the

continued on pg 4

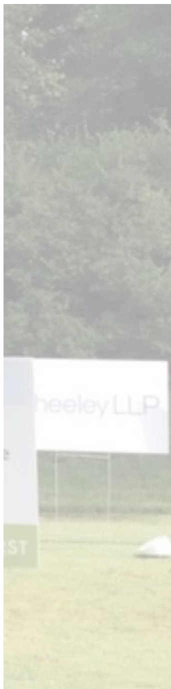
GOLF & TENNIS CLASSIC RAISES AWARENESS, FUNDS FOR ABILITIES FIRST

Our friends at Abilities First, Inc., held the organization's annual golf event, with the addition of tennis this year, on Monday, July 26, at the Powelton Club in Newburgh, N.Y. It attracted a sold-out crowd of participants, plus volunteers and vendors, and raised money for Abilities First, which provides education and support services for individuals with developmental disabilities.

The organization's mission statement is to "provide people who face developmental challenges and their families support to attain independence, self-determination, integration and acceptance by others through education, exploration and experience." Programs exist for children up to 21 years of age as well as adults 21 and older.

Gary Cassiello, shareholder of JGS, CPA, joined the organization's Board of Directors in 2015 and serves on the audit, finance and executive committees.

"Under Melissa McCoy's leadership, the golf outing gets better each year. It is full of surprises and people enjoying a great day for a great cause. It is no wonder the event is sold out year after year," Cassiello said. "Because of the golf outing, we are able to raise money that enriches our services for the people we serve. Abilities First's dedication to them has made it a privilege to serve as its vice chair."



Left to right: Doug Graber, Chris Flannery (Highland Capital Corp. – a division of Valley National Bank), Gary Cassiello and Howard Witt.

Accounting Methods *continued from pg 1*

away from complex, fair-value-based standards that have been implemented in recent years. For example, it retains the familiar accounting for revenue recognition and leases. It also includes targeted disclosure requirements and provides a degree of optionality, enabling SMEs to customize their financial statements to meet the needs of stakeholders.

Tax-Basis Method

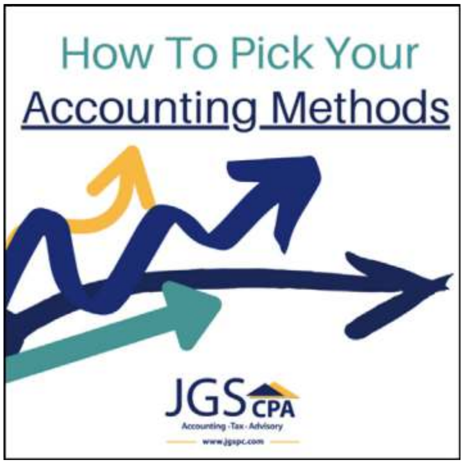
Under this method, companies use the same accounting principles for book and federal income tax purposes. The U.S. tax code provides the rules that apply under this method.

Cash-Basis Method

This is the simplest reporting method. Revenues are recognized when received from customers and expenses when the company pays them. But there is a potential downside: Revenues for the period aren't necessarily matched to the related expenses for the period. This can lead to fluctuations in profits and financial ratios when comparing performance over time.

Questionnaire

Discuss the following questions with your accounting professional to help select the right method for your business:



- How big is your business?
- How quickly is it growing?
- Who will use its financial statements and for what purpose?
- Do you plan to raise capital?
- Do you plan to apply for debt financing?
- Do you anticipate changes in the revenue your business generates, the products and services it offers, or the area it serves?
- Are you planning to sell the business or merge with another business?

For example, the cash- or tax-basis methods may be appropriate for a single-owner business without any debt that uses its financial statements for internal purposes only. But, larger, private firms may decide it's advantageous to comply with GAAP to attract outside investors, obtain loans, satisfy bonding and regulatory requirements and evaluate strategic business decisions.

What's Right for You?

As your business grows in size, sophistication and complexity, it may be time to upgrade to a more complex and consistent method of accounting. Contact us to help select a reporting framework that suits your current needs.

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Use Our Secure Portal or Share Safe Link to Send & Receive Files

Ask Today!

POST-TAX-SEASON RELIEF

Client Dr. Thomas Eanelli and Managing Partner Jason Giordano finished their Buffalo to Albany Erie Canal bike ride in May. "We had a blast!"

Child Tax Credit *continued from pg 2*

CTC from $2,000 to $3,000 per child ages six through 17, with credits of $3,600 for each child under age six. Plus, the CTC is now fully refundable. It also affords taxpayers the opportunity to take advantage of half of the benefit in 2021, rather than waiting until tax time in 2022.

Note, however, that there are limits to eligibility. The $2,000 credit is subject to a phaseout when income exceeds $400,000 for joint filers and $200,000 for other filers, and this continues under the ARPA — for the first $2,000. A separate phaseout applies for the increased amount: $75,000 for single filers, $112,500 for heads of household and $150,000 for joint filers.

Receiving Advance Payments

The ARPA directed the U.S. Treasury Department to begin making monthly payments of half of the credit in July 2021, with the remaining half to be claimed in 2022 on 2021 tax returns. For example, a household that's eligible for a $3,600 CTC will receive $1,800 ($300 in six monthly payments) in 2021 and would claim the balance of $1,800 on the 2021 return. The payments will be made on the 15th of each month through December 2021, except for August, when they'll be paid on August 13.

To qualify for advance payments, you (and your spouse, if filing jointly) must have:

- Filed a 2019 or 2020 tax return that claims the CTC or provided the IRS with information in 2020 to claim a stimulus payment,
- A main home in the United States for more than half of the year or file a joint return with a spouse who has a U.S. home for more than half of the year,
- A qualifying child who's under age 18 at the end of 2021 and who has a valid Social Security number, and
- Earned less than the applicable income limit.

If the IRS has your bank information, you'll receive the payments as direct deposits.

Because the IRS will base the payments on your 2020 tax return (or, if not yet available, your 2019 return), it's possible that you could receive excess payments over the amount you actually qualify for in 2021. In that case — unlike excess stimulus payments — you'll be required to repay the excess. The IRS will either deduct the amount from your 2021 refund or add it to the amount you owe.

Opting Out

The IRS will automatically enroll taxpayers for advance payments, but it's also providing an online portal at irs.gov where taxpayers can opt out. You might consider opting out if, for example, you were near the income limits in 2019 or 2020, expect to earn more in 2021, and want to avoid excess payments. Be aware that couples filing jointly must both opt out, otherwise the spouse who doesn't will receive half of the joint payment.

It's not only a change in expected income that could lead to excess payments; it's also a change in the number of dependents. For example, divorced couples who share joint custody may alternate the years in which they claim their children as dependents for CTC purposes. If 2021 is your former spouse's year, consider opting out (your former spouse won't receive the advance payments based on his or her 2020 tax return but, if eligible, can claim the credit on the 2021 return). Parents of children who will turn age 18 in 2021 also should consider opting out.

continued on pg 5

Child Tax Credit

continued from pg 4

The deadline to opt out of the first payment was June 28, 2021, but you can still opt out for future payments.

Estimating — and Reducing — 2021 Income

When deciding whether to opt out, you can estimate your 2021 income using multiple methods. You could simply look at your modified adjusted gross income on your most recent tax return. You also could project your income for the year and reduce it by the standard deduction (for 2021, it's $12,550 for individual taxpayers and $25,100 for married couples filing jointly).

If you estimate that your income will be near the eligibility threshold, but want to receive the advance payments, you can take measures to reduce your income before year end. You might, for example, increase your 401(k) plan contributions (the contribution limit for 2021 is $19,500). Taxpayers with high deductible health plans and health savings accounts (HSAs) can similarly reduce their income with contributions. The HSA contribution limits for 2021 are $3,600 for individual health plans and $7,200 for family health plans.

Beyond 2021

The expanded CTC is available only for 2021 as of now. President Biden has indicated that he'd like to extend it through at least 2025, and some Democratic lawmakers hope to make it permanent. But it'll be challenging to pass a bill to make either of these proposals happen. We'll keep you informed about any developments that could affect your tax planning.

CONGRATULATIONS, LEADERSHIP ORANGE CLASS OF 2021

We congratulate JGS employee Ryan Arciero and all of his classmates for graduating from Leadership Orange. The 2021 Signature Program was an accelerated program, with 10 months of work condensed into six, but "the Superheroes" made it through.

According to LeadershipOrange.org, the "Signature Program is designed to provide a diverse group of exceptional individuals, that either live or work in Orange County, with an in-depth understanding of the many challenges and opportunities within the county and thus enable them to better serve their own communities going forward… participants receive training from local business, community, and government leaders on topics important to the residents and businesses of Orange County. Topics include diversity & inclusion, education, planning & infrastructure, health & human services, government & politics, quality of life, economic development, leadership development, project management, and the judicial system."

For more information, or to apply to the Signature Program Class of 2022, visit **https://www.leadershiporange.org/leadership-orange-programs**.

Photo (left): *Ryan Arciero with coworker Bonnie Orr, partner at JGS, CPA.*

Photo (right): *Class of 2021 graduate Jeanne Reese, financial analyst at DeLorenzo Financial Group, LLC, embraces Arciero after pinning him with a commemorative alumni pin. Each graduate selected a classmate to honor them in this way at graduation.*

A Fresh Look at CRTs, CRATs and CRUTs

A charitable remainder trust (CRT) allows you to support a favorite charity while potentially boosting your cash flow, shrinking the size of your taxable estate, and reducing or deferring income taxes. In a nutshell, you contribute stock or other assets to an irrevocable trust that provides you — and, if you desire, your spouse (or others you designate) — with an income stream for life or for a term of up to 20 years. At the end of the trust term, the remaining trust assets are distributed to one or more charities you've selected.

"The timing of funding a CRT will impact your tax savings. For example, funding a CRT in the same year as a large Roth conversion could save taxes when you are in a higher bracket. Also, when interest rates are lower, the CRAT charitable deduction is lower," Bonnie Orr, CPA, said. "An honest discussion about the client's needs should always precede any big decisions."

When you fund the trust, you're entitled to claim a charitable income tax deduction equal to the present value of the remainder interest (subject to applicable limits on charitable deductions). Your annual payouts from the trust can be based on a fixed percentage of the trust's initial value — this is known as a charitable remainder annuity trust (CRAT). Or, they can be based on a fixed percentage of the trust's value recalculated annually — in what's known as a charitable remainder unitrust (CRUT).

CRUT Advantages

Generally, CRUTs are preferable for two reasons. First, the annual revaluation of the trust assets allows payouts to increase if the trust assets grow, which can allow your income stream to keep up with inflation. Second, donors can make additional contributions to CRUTs, but not to CRATs. The fixed percentage — called the unitrust amount — can range from 5% to 50%. A higher rate increases the income stream, but it reduces the value of the remainder interest and, therefore, the charitable deduction. Also, to pass muster with the IRS, the present value of the remainder interest must be at least 10% of the initial value of the trust assets. The determination of whether the remainder interest meets the 10% requirement is made at the time the assets are transferred. If the ultimate distribution to charity is less than 10% of the amount transferred, there's no adverse tax impact related to the contribution.

"There are times when, despite the advantages of a CRUT, a CRAT makes more sense. We often provide analysis of both CRAT and CRUT for our clients, to assist in making the best decision for their personal financial plan." Orr said.

NIMCRUTs Can Provide an Income Boost

By designing a CRUT with a "net income with makeup" feature — known as a NIMCRUT — you can reduce or even eliminate payouts early in the trust term and enjoy larger payouts in later years when you're retired or otherwise need an income boost. Each year, a NIMCRUT distributes the lesser of the unitrust amount (say, 5%) or the trust's net income. The trustee

continued on pg 7

Bonnie J. Orr, CPA, is a shareholder of JGS, CPA, P.C. Bonnie began her career in public accounting in 1981.

In addition to providing tax and accounting advice to a wide range of closely held businesses, Bonnie specializes in the area of estates and trusts. Bonnie works closely with clients and their attorneys, providing estate and personal tax planning strategies to maximize the transfer of wealth to future generations, and provide for a long and comfortable retirement without losing sight of a client's current financial needs.

Bonnie has worked extensively in the complex areas of the generation skipping tax, living trusts, life insurance trusts, personal residence trusts, charitable remainder trusts, special needs trusts and family limited partnerships.

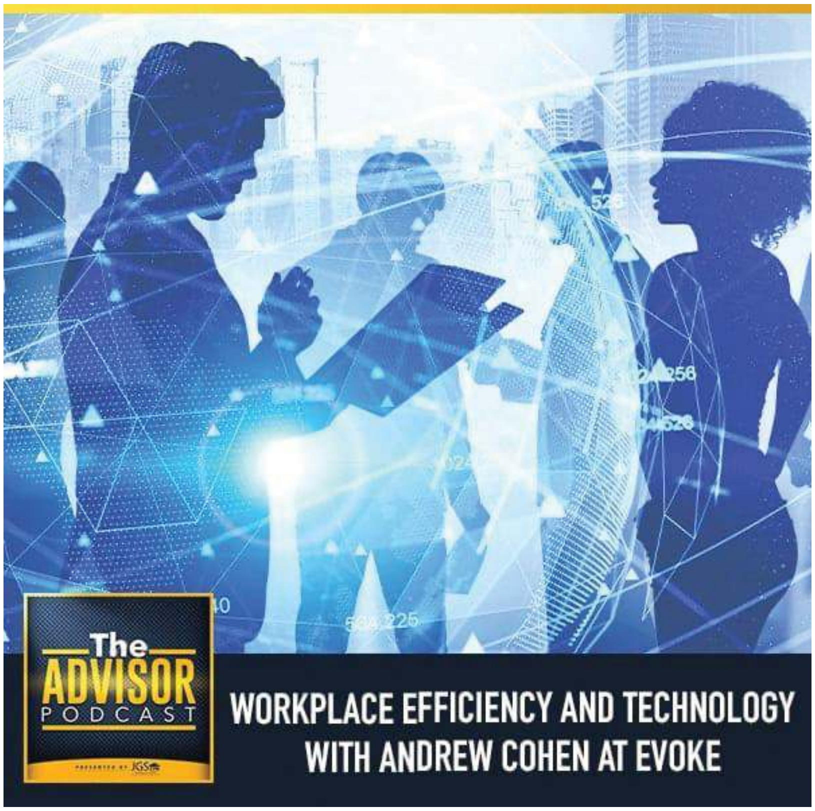
CRTs, CRATs, and CRUTs

continued from pg 6

can invest the trust assets in growth investments that produce little or no income, allowing the trust to grow tax-free and deferring distributions to later years. The deferred payouts accumulate in a "makeup account." When you're ready to begin receiving an income, the trustee shifts the assets into income-producing investments. You can use the funds in the makeup account to increase your distributions beyond the unitrust amount (up to the amount of net income).

Handle with Care

CRTs, CRATs and CRUTs require careful planning and solid investment guidance to ensure that they meet your needs. Contact us to discuss your options before taking action. We recommend a team approach, working with your attorneys and investment advisors to ensure that the CRT is part of an overall strategy that will best support your long term financial goals.



WORKPLACE EFFICIENCY AND TECHNOLOGY WITH ANDREW COHEN AT EVOKE

Many small businesses these days don't have the resources to increase efficiency and mitigate costs. This hinders them from moving forward and growing because of how much time they are spending on things that could be automated. This is where the power of technology and digital transformation comes in. Join Brian Powers and Andrew Cohen in this discussion about workplace efficiency. Andrew is the CEO and Managing Partner at EVOKE, one of JGS CPA's closest (geographically) affiliates from the Business Resource Network of the BDO Alliance. Andrew builds digital workplace solutions for businesses, especially small companies and organizations.

Brian and Andrew talk about workplace changes and how to use technology to improve efficiency. Tune in and learn how technology and automation can help companies focus on growth. Also, find out how Andrew brings businesses into the modern age.

EVOKE is based in the city of Poughkeepsie. For more information about its services, visit **https://www.evokenewyork.com/**.

Contact Us

(845) 692 – 9500
(877) 740 – 9500
info@jgspc.com
www.jgspc.com

Middletown Office
633 Rt. 211 East
Middletown, NY 10941

Poughkeepsie Office
2645 South Road
Suite 5
Poughkeepsie, NY 12601

DCC REVEALS NEW AVIATION PROGRAM INFRASTRUCTURE

On June 24, Dutchess Community College revealed its new aviation program at Hudson Valley Regional Airport. Credit to Dr. Ellen Gambino, Ed.D., County Executive Marc Molinaro and Senator Sue Serino, among many others, for their thoughtful words. We share their hope that DCC@HVR Airport will be a success for the students and for our local economy. What a great surprise to see and board the (now grounded) former Air Force One jet.

For more information about the facility or program, please visit **https://www.sunydutchess.edu/academics/aviation/aviation_education_center.html.**