



# LICHTENSTEIN FINANCIAL

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Business News-Winter 2020/2021

## DISCOVER LICHTENSTEIN™ DISCOVER WEALTHHEALTH®

### Wishing You and Your Families Comfort & Health in 2021

Dear Valued Clients and Friends,

In addition to this letter, please read our accompanying **Business Tax Tips**.

***\*This multi-document mailing to you is filled with time-sensitive business planning opportunities.***

#### **'Value' Driven Business Planning Works!**

In 2020, our clients, as well as Lichtenstein Financial staff, continue the rise to new heights of acuity.

Together, we develop unique approaches to 'value-based' decision-making utilizing our **Behavioral Financial and Business Planning Program**. If you haven't had an 'aha' moment lately, please come and sit with us for an hour or two. You will walk out with a new sense of control of your destiny. We cannot promise you the world, but we can promise you heightened clarity of your business and financial purpose.

Please complete the enclosed 2020 year-end worksheet. It is imperative that you complete this entire worksheet with accurate information. **Please take your time when completing the worksheet.** This important tool assists us in confirming and/or double-checking your business information. Again, even if you believe we already have this information, you must re-verify it for us.

The worksheet also includes your annual engagement letter with us. Please sign for both the business and personally, where indicated. **We cannot complete your returns unless you complete and sign this form.**

We must receive the completed worksheet by **January 31, 2021**, including, but not limited to:

- 12 month detailed general ledger or trial balance of all 2020 business activity.
  - 14 months of business bank statements (include Dec '19 & Jan '21) so we can tie deposits to your income.
  - 12 months of completed payroll and sales tax returns.
  - 12 months business mileage, including opening and closing odometer readings.
  - Forms 1099-MISC, 1099-NEC (non-employee compensation) and 1099-K (internet sales) that you receive.
  - **ALWAYS KEEP EVERY RECEIPT FOR ANY TYPE OF BUSINESS EXPENSE.**
- Not providing this information by 3/15/21, may delay the preparation of your returns.**

W E A L T H M A N A G E M E N T  T A X  I N S U R A N C E

Securities offered through Securities America, Inc. Member FINRA/SIPC, Brian Lichtenstein, Registered Representative. Advisory Services offered through Securities America Advisors, Inc., Brian Lichtenstein, Investment Advisor Representative. The Securities America Companies are not affiliated with Lichtenstein Financial, LLC or Lichtenstein Tax Consultants, LLC. Tax services offered through Lichtenstein Tax Consultants, LLC.

### Financial, Tax, and Business Planning Highlights:

- **ALERT-If you applied for and received a PPP loan, and you qualify for loan forgiveness, please note that the forgiven amount will become taxable income. You may owe federal and state taxes on the total amount. Please call Lichtenstein Financial to review your 2020 taxes before December 23, 2020.**
- The Section 179 expense deduction for 2020 is \$1,040,000. Bonus depreciation is also available up to 100% of qualifying property through 12/31/2022. **Tax planning regarding this issue is important.**
- Calendar year cash basis businesses should review accelerating expenses into a current year and deferring revenue (through legal and careful billing practices) into a future calendar year to decrease business income.
- For self-employed individuals who have a SIMPLE plan, salary reduction contributions (deferrals) must be made by January 30, 2022.
- Employer matching contributions for retirement plans (401k, 403b, Pension, SIMPLE) made by the filing date of the business' tax return in 2021 are deductible in 2020. **Call us!**
- Self-employed individuals should consider setting up a self-employed retirement plan (SEP) by return due date including extensions. **Call us!**
- 100% of self-employed health insurance premiums paid in 2020 are deductible (income thresholds apply) as an adjustment above Adjusted Gross Income (AGI) on your 1040.
- The standard mileage rate for business use of a vehicle in 2020 is \$0.575 for the entire year. The 2021 rate has not yet been announced.
- Setting up an employee pension plan, for 100 or less employees, can save you up to \$500 in the form of a tax credit for part of the ordinary and necessary costs of starting the plan.
- 401(k) and 403(b) plans can be modified to accept Roth contributions. **Please call us to determine if a Roth 401(k) is the right retirement opportunity for you.**

### NEW CONNECTICUT LEGISLATION FOR EMPLOYERS

As of 1/1/2021, Connecticut is implementing a new 'Paid Family and Medical Leave Act.' All private employers MUST begin deducting .5% (.005) from each employees' paycheck to fund this program. Employees are not permitted to opt out of these MANDATORY contributions. Payroll deductions for each employee are capped at the Social Security wage limit (\$142,800 for 2021). This would amount to a maximum payroll deduction for 2021 of \$714, if you earned at least \$142,800. **Employers will need to register for this on the CT Paid Leave authority website to establish their account prior to 1/1/2021.** Self-employed individuals may also opt-in to this program. Employees can start to receive benefits from this fund beginning 1/1/2022.

**As always, we thank you for your friendship, loyalty, referrals, and patronage - See you in 2021!**



Brian C. Lichtenstein, CEO/Member - Lichtenstein Financial, LLC & Lichtenstein Tax Consultants, LLC

W E A L T H M A N A G E M E N T  T A X  I N S U R A N C E

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# LICHTENSTEIN FINANCIAL

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Dear Valued Business Client:

We will prepare the federal and state income tax returns for your Company, as required, for the period ending as indicated on page one of the **Worksheet for Tax or Financial Information**. We will prepare your business return(s) based on the information compiled from this worksheet in addition to other documentation that has been requested. We will not audit, review or otherwise verify the tax data that you submit, although we may need to ask you for clarification of some of the information.

It is your responsibility to provide us with all the information required for the preparation of complete and accurate tax returns. You should retain all the documents, cancelled checks and other data that form the basis of income and deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before they are filed.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform you of any material errors that come to our attention and any fraud or illegal acts that come to our attention, unless they are clearly inconsequential.

I hereby certify that the facts set forth in the **Worksheet for Tax or Financial Information** are true and complete to the best of my knowledge. I agree to proper payment for services rendered by Lichtenstein Tax Consultants, LLC. I hereby authorize you to obtain information that you may require concerning my financial standing and/or credit record. NOTE: Lichtenstein Financial, LLC is a member of a multi-bureau credit reporting service. We participate in reporting: paid, outstanding, and delinquent accounts. The report of an account in 'good standing' is beneficial to building your credit record. Interest is charged at 1.5% per month on accounts past due over 30 days. Client to pay costs of collection including a reasonable attorney's fee on overdue accounts.

SIGNATURE: \_\_\_\_\_ DATE: \_\_\_\_\_

(as LLC member and individually)

SIGNATURE: \_\_\_\_\_ DATE: \_\_\_\_\_

(as LLC member and individually)

ADMITTED TO PRACTICE BEFORE THE INTERNAL REVENUE SERVICE  
MEMBER/ASSOCIATE: NSA - NAEA - CSEA - NATP  
ENROLLED AGENT

W E A L T H M A N A G E M E N T TAX I N S U R A N C E

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**LICHTENSTEIN FINANCIAL, LLC  
LICHTENSTEIN TAX CONSULTANTS, LLC**

**WORKSHEET FOR TAX OR FINANCIAL INFORMATION**

CLIENT: \_\_\_\_\_ PERIOD ENDING: \_\_\_\_\_

Did you sell or buy a business this year?       Yes       No

If yes, please give details: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Any change in officers, directors or members?       Yes       No

If yes, please give details: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

***Closing Balances:***

Checking Account	\$	_____
Payroll Account	\$	_____
Savings Account	\$	_____
Petty Cash	\$	_____
Money Market Account	\$	_____
Other	\$	_____

• If we do not do your quarterly postings, attach copies of bank statements for the entire period (year) for all accounts.

***Closing Inventory at Cost***

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Accounts Receivable -- attach list**

Less: Considered Uncollectible \_\_\_\_\_  
Net Balance \_\_\_\_\_

**Accounts Payable**

Purchases for Resale \_\_\_\_\_  
Other -- List by Account \_\_\_\_\_  
or attach detailed sheet \_\_\_\_\_  
Total \_\_\_\_\_

**If a corporation: Officers' Salaries for this period (year) by Officer:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Employee withholding unpaid at end of period (year):**

Federal Withholding \_\_\_\_\_  
FICA/Medicare \_\_\_\_\_  
State Withholding \_\_\_\_\_

• If we do not prepare your quarterly payroll returns, please provide us with copies of 941's, UC-2's, 940's, W-2's, W-3's and CT-941's for the period (year).

**Loans Payable** (include information regarding officer loans also):

Enter principal balances due for each loan at end of period (year). Attach copies of new loans if not already provided.

Description	Amount

**Fixed Assets Purchased during period (year)** (include vehicles):

Attach invoice and copy of note.

Description	Date Purchased	Cost	Amount of Note

**Fixed Assets Disposed of during period (year)** (include vehicles):

Description	Date Purchased	Date Sold	Original Cost	Selling Price

(If traded-in, write "traded" under selling price and provide paperwork relative to trade-in.)

Revenues (sales) for period (year): \$ \_\_\_\_\_

- Attach copies of cash receipts journal, sales journal and sales tax return (if applicable). (Please disregard if we do your quarterly posting of cash receipts and cash disbursements.)

**Employee Life Insurance:**

Do you provide life insurance benefits to your employees?  yes  no

If yes, is it group life or whole life? \_\_\_\_\_

Is the death benefit more than \$50,000?  yes  no

If yes, please list each employee by name, amount of death benefit & annual premium paid:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Owner/Officer Life Insurance:**

Owner of policy \_\_\_\_\_

Beneficiary \_\_\_\_\_

Amount of policy \$ \_\_\_\_\_

Cash surrender value \$ \_\_\_\_\_

Premium(s) (monthly) \$ \_\_\_\_\_

Amount of loans borrowed against policy # \_\_\_\_\_

Did you pay for this policy during the entire year?  yes  no

If no, what period during the year did you pay for the policy? \_\_\_\_\_

**Other Insurance (Buy/Sell, Split-Dollar, etc.):**

Owner of policy \_\_\_\_\_

Beneficiary \_\_\_\_\_

Amount of policy \$ \_\_\_\_\_

Cash surrender value \$ \_\_\_\_\_

Employees Covered	Ages

**PERSONAL USE OF COMPANY OWNED VEHICLES**

Information regarding use of vehicles -- If you deduct expenses for vehicles:

- Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person.

Total business miles driven during the year (DO NOT include commuting miles:

Vehicle 1 \_\_\_\_\_

Vehicle 2 \_\_\_\_\_

Vehicle 3 \_\_\_\_\_

Total commuting miles driven during the year:

Vehicle 1 \_\_\_\_\_

Vehicle 2 \_\_\_\_\_

Vehicle 3 \_\_\_\_\_

Total other personal (non-commuting) miles driven:

Vehicle 1 \_\_\_\_\_

Vehicle 2 \_\_\_\_\_

Vehicle 3 \_\_\_\_\_

Total miles driven during the year:

Vehicle 1 \_\_\_\_\_

Vehicle 2 \_\_\_\_\_

Vehicle 3 \_\_\_\_\_

Was the vehicle available for personal use during off-duty hours?

Vehicle 1:  Yes  No

Vehicle 2:  Yes  No

Vehicle 3:  Yes  No

Was the vehicle used primarily by a more than 5% owner or related person?

Vehicle 1:  Yes  No

Vehicle 2:  Yes  No

Vehicle 3:  Yes  No

Is another vehicle available for personal use?  Yes  No

**Rental (Lease) Agreements:(for real property, vehicles, and equipment)**

Monthly rentals \_\_\_\_\_

Period: From \_\_\_\_\_ To \_\_\_\_\_

Attach copy of latest signed rental agreement.



# TaxTips

small business owners winter 2020/2021

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Glastonbury, West Hartford & Middletown

## Working from home?

Know what's deductible

If you're self-employed and use part of your home for business, you may be able to deduct expenses allocable to the business use. The home office deduction is available for homeowners and renters. To qualify for the deduction, you must use the space in your home regularly and exclusively as your principal place of business. Any personal use of the space will disqualify you from claiming a home office deduction.

You may choose one of two methods for calculating your deduction – the simplified method or the regular method. The simplified method allows you to claim \$5 per square foot for a maximum of 300 square feet. This gives you a home office deduction of no more than \$1,500. No other deductions are allowed. You are still permitted, however, to claim any mortgage interest or property taxes on Schedule A, if you itemize deductions.

The regular method requires a bit more record-keeping. Generally, when using the regular method, deductions for a home office are based on the percentage of your home devoted to business use. So, if

you use a whole room or part of a room for conducting your business, you need to figure out the square footage of the business use compared to the square footage of your entire home. This percentage is then used to calculate the percentage of deductible expenses such as mortgage interest, insurance, utilities, repairs and depreciation.

You may choose to use either the simplified method or the regular method for any taxable year. Once you choose, you cannot change your mind for that year. You can, however, use the simplified method one year and the regular method in another. If you use the simplified method for one year and use the regular method for any subsequent year, you must calculate the depreciation deduction for the subsequent year using the appropriate optional depreciation table.

During 2020, many employees were sheltering in place and forced to work from home. The current rules for deducting home office expenses do not apply to employees since deductions for employee business expenses have been suspended until 2026.



## Handling business losses

### CARES Act eases the rules

In 2017, the *Tax Cuts and Jobs Act* (TCJA) provided that net tax losses from businesses in excess of an inflation-adjusted \$500,000 for joint filers, or an inflation-adjusted \$250,000 for other taxpayers, are to be treated as net operating loss (NOL) carryforwards in the following tax year. This new rule eliminated the ability for a business owner with a loss to carry back the loss to a prior year, thus delaying any tax benefit.

Earlier this year, the CARES Act liberalized this rule by retroactively postponing the limits, so they now apply to tax years beginning in calendar years 2021 through 2025. This means the \$500,000 limitation (or \$250,000 for single taxpayers) on excess business losses for non-corporate taxpayers does not apply until Jan. 1, 2021. As a result, affected taxpayers may be able to fully deduct business losses arising in 2018, 2019 and 2020. The CARES Act also eliminated the TCJA rule that limited a loss to 80% of taxable income. Companies are now permitted to fully offset their taxable income in such taxable years with NOL carryforwards without regard to the year in which such NOL arose. NOLs from taxable years beginning after Dec. 31, 2017, that are carried forward to taxable years beginning after Dec. 31, 2020, will be subject to the 80% limitation that was enacted as part of TCJA.

In summary, the CARES Act reinstates loss carrybacks for NOLs arising in 2018, 2019 and 2020 (taxable years beginning after Dec. 31, 2017, and before Jan. 1, 2021) to the five taxable years preceding the taxable year in which the loss arose. Taxpayers generally have 120 days after March 27, 2020, the date of enactment of the CARES Act, to either carry back their 2018 NOLs or relinquish the carryback period and carry such amounts forward.

## Did you receive a PPP loan?

### For some, it may be tax free

Many small businesses impacted by the coronavirus pandemic were eligible to apply for a loan through the Payroll Protection Program (PPP). These loans were essential for helping to keep employees working and businesses open. You've probably heard a lot in the media as to what the loan proceeds can be used for and whether they need to be repaid.

In general, 100% of the loan can be forgiven—if you meet certain criteria. First and foremost, to get your loan forgiven, you'll need to complete a PPP loan forgiveness application form and submit it to your lender. You can obtain the necessary form (Form 3508 or Form 3508-EZ) from the Small Business Administration at [sba.gov](http://sba.gov).

Secondly, you must use the funds from the loan for certain expenses. The funds from the PPP can be used for the following:

- Payroll (salary, wage, vacation, parental, family, medical or sick leave, health benefits)
- Mortgage interest, if the mortgage was signed before Feb. 15, 2020
- Rent, if the lease agreement was in effect before Feb. 15, 2020 (rent includes rental of office space business equipment, vehicles or warehouse)
- Utilities, if service began before Feb. 15, 2020 (utilities include electricity, water, gas, sewage, cell phone/landline, internet and transportation costs)

Eligible expenses are those that are incurred over 24 weeks, starting from the day the first payment was made by your lender. This is not necessarily the date on which you signed your loan agreement. At least 60% of the loan proceeds must be used to cover payroll costs. The remaining 40% can be used for other costs.

While all this seems straightforward, there are several other conditions of forgiveness that are dependent on how many employees you retain and how much you pay them. It's advisable that you seek assistance before attempting to tackle this on your own.





## Payroll tax deferral

### What this means for you

On Aug. 8, 2020, a Presidential Memorandum was issued allowing employers the option to defer withholding and payment of the employee's portion of Social Security tax if the employee's wages are below \$4,000 on a bi-weekly basis. The relief is available for employers and generally applies to wages paid starting Sept. 1, 2020, through Dec. 31, 2020.

On the surface, this seems like a great benefit. Workers who participate in the president's payroll tax deferral will see a temporary increase in their take-home pay, but it's not without consequences. Should you choose to go this route, your employees will likely see smaller than normal paychecks in early 2021.

Under this new rule, employers can stop withholding the 6.2 percent of the employee's portion of Social Security tax from paychecks through the end of 2020. However, if you opt to participate, you'll need to recoup that money by increasing the amount of taxes withheld from your employees' paychecks from January through April 2021.

The result is that workers whose taxes are deferred would see bigger paychecks this year and smaller than normal paychecks next year, unless legislation is enacted to forgive the deferred taxes. At this point there is no indication that will happen.

## \$179 vs. bonus depreciation

### Either choice brings large deductions

Eventually all business owners will need to purchase or replace assets. When this happens, they need to determine how the cost of those assets will be recovered. Typically, the cost of business assets is recovered over their expected life through depreciation. If your goal is to recover that cost faster, you can either expense it under §179 or bonus depreciation.

Only certain property qualifies for the §179 deduction. That property includes tangible personal property, certain computer software and certain qualified real property, such as interior improvements, HVAC or alarm systems or roofs. The property must be



acquired by purchase, meaning it cannot be a gift to you or property that you already own and convert to business use.

Under §179, businesses can deduct up to \$1,040,000 of qualified equipment immediately, with a limit of \$2,590,000, after which the deduction begins to phase out on a dollar-for-dollar basis. The deduction is limited to your taxable income from the business; however, any amount that can't be deducted because of this limitation is carried over indefinitely to later years.

You can choose which purchases to cover under the §179 deduction and which to save as future tax breaks. You can even split the deduction for individual purchases (for example, claiming half the cost of a new car upfront while spreading out the rest of the purchase over time). One notable drawback to the §179 deduction is that if the business use drops to less than 50%, some or all of your previous deduction must be recaptured.

Bonus depreciation, on the other hand, has slightly different rules. First, there are no income limits or limits on how much you can spend on assets and write off. If you are a larger business planning to make large purchases of new or used assets, this option may look better for you.

Essentially, bonus depreciation allows you to deduct 100% of the cost of an asset in one year. Qualifying

property for bonus depreciation must have a class life of 20 years or less and can include a wide variety of interior, non-load-bearing building improvements. Unlike §179, bonus depreciation does not apply to roofs, HVAC, fire protection systems, alarm systems and security systems.

One significant difference between bonus depreciation and §179 is that if you place several assets with the same class life, you must elect bonus depreciation for all or none of them. Electing §179 allows you to choose. The 100% bonus depreciation amount remains in effect from Sept. 27, 2017, until Jan. 1, 2023. After that, first-year bonus depreciation goes down 20 percent each year and is set to completely expire after 2026. There is no statutory end to §179.

While on the surface it may not look like there's much difference between the two, the method you choose depends on several factors, such as your income, the type of property you purchase and when it's placed in service.

## How to protect your business and your customers

Cyberthieves are everywhere

Everyone knows that having strong locks, a security alarm and perhaps a security guard will help protect your business from a physical break in. But what

Financial Professionals doing business as Lichtenstein Financial, LLC offer securities through Securities America, Inc. Member FINRA/SIP, and advisory services through Security America Advisors, Inc.

about the sneaky cyberthieves you can't see coming? There are several things you must implement to protect yourself, your livelihood and your client or customer data. Here are a few essential tips:

- Encrypt your data. Software programs are available to help you do this.
- Use strong passwords and change them often. The longer the password, the better.
- Back up your files often, daily if possible. Using the cloud is a great option.
- Avoid public WiFi. If you do one thing, forbid all use of public WiFi for work activities.
- Provide alternatives such as a mobile virtual private network (VPN) for employees to use when they're not in the office.
- Install antivirus software and use firewalls to protect you from unwanted intrusions.
- Keep your operating systems up to date with the latest security features.
- Develop policies for suspicious emails. This means educating your employees on how to recognize phishing and other suspicious emails.

Cyberattacks have become common, and there is no better investment for your business than a good security plan. If you aren't confident you can create one on your own, hire an expert.

