WILLIAM JEFFERSON COLE, C.P.A.
STEVEN W. HEDGEPETH, C.P.A.
STEVEN R. BAYER, C.P.A.
BAILEY B. BAYNHAM, C.P.A.
ROBERT A. BUSBY, C.P.A.
ANNE-MARIE COLE, C.P.A.
TIMOTHY W. BORST, C.P.A.
ERIC D. SMITH, C.P.A.
KYLE S. DOBBINS, C.P.A.
MATTHEW R. HAHN, C.P.A.
FAYE D. BARFIELD, C.P.A.
KELLY B. NELSON, C.P.A.
GEORGE D. FAUBER III, C.P.A.
R. SCOTT MOORE, C.P.A.
ADAM JEFFERSON CAIN, C.P.A.
JONATHAN B. WEST, C.P.A.

J. AMY HEMMINGS, C.P.A.
JANA JOHNSTON COX, C.P.A.
MADISON PAIGE LAIRD, C.P.A
BONNIE C. PESNELL, C.P.A.
MANDI ROSE KILLIAN, C.P.A.
MARY HANNAH WILLIAMS, C.P.A.
SARA E. HEDGEPETH, C.P.A.
CHRISTOPHER A. WILLIAMS, C.P.A.
JACOB A. TADLOCK, C.P.A.

COLE, EVANS & PETERSON

CERTIFIED PUBLIC ACCOUNTANTS

FIFTH FLOOR TRAVIS PLACE
624 TRAVIS STREET
SHREVEPORT, LOUISIANA 71101-3013

www.cepcpa.com

M. ALTON EVANS, JR. (2022)
TIMOTHY R. DURR (2023)

OF COUNSEL
BARRY S. SHIPP, C.P.A.
CAROL T. BARNES, C.P.A.
AUSTIN G. ROBERTSON, JR., C.P.A.

TELEPHONE (318) 222-8367
TELECOPIER (318) 425-4101

MAILING ADDRESS:
POST OFFICE DRAWER 1768
SHREVEPORT, LOUISIANA 71166-1768

JUNE 2024

WILLIAM JEFFERSON COLE
May 29, 1939 – May 26, 2024

With profound sorrow we announce the death of our managing partner, Jeff Cole, on May 26, 2024. For almost 60 years, Jeff devoted his professional career to leading the Firm's partners and staff in the service of our clients. After a time of mourning, we will include a tribute to Jeff in a future newsletter.

WHERE'S MY REFUND AND WHY DON'T I HAVE IT?

April 15 came and went, and some who did not file an extension for the 2023 tax return are expecting a tax refund. According to the IRS, if you filed your federal tax return electronically, most refunds are paid in less than 21 days after filing. If your tax return was filed by paper, expect your refund to take four weeks or more.

It is not uncommon, however, for a federal tax refund to be delayed for a very extended period of time. Some of the possible reasons for the delay are (1) your tax return is being affected by identity theft or fraud (e.g., someone has already filed a fraudulent tax return using your name, Social Security number, etc.), (2) income reported on an information return (e.g., Forms 1099, etc.) issued to you does not appear to match the amounts reported on your tax return, (3) Social Security number/name mismatch (e.g., name change because of a marriage), (4) bank account number error for direct payment or refund, (5) your tax return "scored high" because of one or more reported items of an unusual nature or amount.

If your federal tax refund is taking longer than expected, the first step is to check "Where's My Refund?" on the IRS's website at *https://www.irs.gov/wheres-my-refund*. To do so, you will need to enter (1) your Social Security number, (2) your tax return filing status (e.g., single, married-filing joint return, etc.), and (3) the exact whole-dollar amount of the refund shown on your tax return. Following your input, you should receive one of the following responses:

- Return Received – We received your return and are processing it.
- Refund Approved – We approved your refund and are preparing to issue it by the date shown.
- Refund Sent – We sent the refund to your bank or to you in the mail. It may take 5 days for it to show in your bank account or several weeks for your check to arrive in the mail.

If the IRS website does not provide an adequate explanation of a long-delayed refund, your options are to either call the IRS (1-800-829-1040) or ask a tax professional who has your IRS power of attorney (Form 2848) to make an inquiry through the IRS's Practitioner Priority Service.

If the delay has been caused by an identity theft matter, you might be required to speak directly with an IRS employee by telephone to answer questions to prove your identity and resolve the issue. But, please note that this telephone identification process will be

(*Continued on reverse*)

initiated by you (usually from instructions on an IRS notice informing you of an identity theft issue). If, however, you receive a cold call from someone claiming to be with the IRS asking for personal information, you should hang up because that person is almost certain to be a criminal.

Louisiana tax refunds may be checked at the following website: *https://revenue.louisiana.gov/Home/WheresMyRefund*.

HEALTH SAVINGS ACCOUNTS – A RETIREMENT ACCOUNT?

A Health Savings Account (HSA) is a personal savings account that one can set up to pay or reimburse qualifying medical expenses. For the annual contributions to the HSA, a deduction is allowed directly against taxable income whether or not itemized deductions are claimed. Withdrawals from the HSA are not taxable income to the extent of medical expenses incurred by the taxpayer, spouse, and dependents. Also, the HSA investment earnings accumulate inside the account tax-free.

There are two general approaches to utilizing an HSA. The first approach is to fund the HSA each year and withdraw essentially the same amount for qualifying medical expenses incurred. In doing so, a current deduction is allowed directly against taxable income rather than having to claim those medical expenses as an itemized deduction which would be phased out in most cases to zero and of no benefit to a high-income taxpayer. In effect, the HSA indirectly allows one to deduct those medical expenses without the limits imposed on itemized deductions.

The second approach is to utilize the HSA as a tax-deferred savings account. One can make a tax deductible contribution to an HSA up to the annual limit, but annual withdrawals from the HSA for such medical expenses are not required. The HSA contributions can be invested and accumulate earnings tax-free inside the HSA. For a young person or couple starting early, the tax-free accumulation inside the HSA over many years can be significant.

If one does accumulate inside an HSA, a record of all qualifying medical expenses paid since setting up the HSA must be maintained so that when withdrawals are made the tax-free character of the distributions can be supported. Also, if there remains an HSA balance at one's death, a surviving spouse can continue to withdraw from the account based on unreimbursed medical expenses. But, withdrawals by a beneficiary of the account other than a surviving spouse will be taxable income to that beneficiary.

Like most tax-favored accounts, there are limitations and other rules. We will be happy to discuss an HSA with you.

NEW DEPARTMENT OF LABOR EMPLOYEE COMPENSATION RULES

The federal minimum wage of $7.25 per hour has not changed since July 24, 2009. Assuming a 40 hour work week and 52 weeks in the year, that comes to $15,080 per year. Many states have a minimum hourly wage that is higher than the federal amount (e.g., Washington - $16.28; California - $16.00; Connecticut - $15.69). Louisiana does not, so it's minimum hourly wage is the federal amount of $7.25.

The federal minimum wage (and Louisiana's by default) is not scheduled to increase, which would take a Congressional bill and the President's signature. However, the U.S. Department of Labor (DOL) may determine what workers are exempt from the federal minimum wage rule as well as the requirement for the "1-1/2 times" overtime pay for hours worked over 40 in a work week. These exemption rules are about to change.

DOL rules currently exempt employees from the federal minimum wage and overtime requirements for bona fide executive, administrative, professional, outside sales, and certain computer employees who are paid a minimum salary. DOL rules, not job titles, determine the employee's status for this purpose. To qualify for the exemption, the employee must be paid on a salary basis (not hourly) not less than $684 per week ($35,568 annually). Effective July 1, 2024, this minimum salary threshold will increase to $844 per week ($43,888 annually) and will further increase to $1,128 per week ($58,656 annually) effective January 1, 2025. The minimum salary threshold will be adjusted again on July 1, 2027 and every three years thereafter. These new rules, however, are being challenged in a lawsuit filed in federal district court by a coalition of business groups.

Like most government rules, these are complex and come with many definitions and exceptions. The above, is a brief overview, and we will be happy to discuss it generally with you. If you have questions about a specific issue on this matter, you should consult with an attorney who practices in this area.

Cole, Evans & Peterson, CPAs
www.cepcpa.com

624 Travis Street | Shreveport, Louisiana 71101 | (318) 222-8367

Tax & Business Alert

JUNE 2024

WHAT EXPENSES CAN'T BE WRITTEN OFF BY YOUR BUSINESS?

If you check the Internal Revenue Code, you may be surprised to find that most business deductions aren't specifically listed there. For example, the tax law doesn't explicitly state that you can deduct office supplies and certain other expenses. Some expenses are detailed in the tax code, but the general rule is contained in the first sentence of Section 162, which states you can write off "all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business."

BASIC DEFINITIONS

In general, an expense is *ordinary* if it's considered common or customary in the particular trade or business. For example, insurance premiums to protect a store would be an ordinary business expense in the retail industry.

> *It's possible for an ordinary expense to be unnecessary — but, to be deductible, an expense must be ordinary and necessary.*

A *necessary* expense is one that's helpful or appropriate. For example, a car dealership may purchase an automatic defibrillator. It may not be necessary for the business operation, but it might be helpful if an employee or customer suffers a heart attack. It's possible for an ordinary expense to be *un*necessary — but, to be deductible, an expense must be ordinary *and* necessary.

A deductible amount must be reasonable in relation to the benefit expected. For example, if you're attempting to land a $3,000 deal, a $65 lunch with a potential client should be OK with the IRS. (The Tax Cuts and Jobs Act eliminated most deductions for entertainment expenses but retained a 50% deduction for business meals.)

RELEVANT U.S. TAX COURT CASES

Here are three recent U.S. Tax Court cases in which specific taxpayer deductions were disallowed:

1. A married couple owned an engineering firm. For two tax years, they claimed depreciation of $76,264 on three vehicles, but didn't provide required details, including each vehicle's ownership, cost and useful life. They claimed $34,197 in mileage deductions and provided receipts and mileage logs, but the court found they didn't show related business purposes. The court also found the mileage claimed included commuting costs, which can't be written off. The court disallowed these deductions and assessed taxes and penalties. (TC Memo 2023-39)

2. The court ruled that a married couple wasn't entitled to business tax deductions because the husband's consulting company failed to show that it was engaged in a trade or business. In fact, invoices produced by the consulting company predated its incorporation. And the court ruled that even if the expenses were legitimate, they weren't properly substantiated. (TC Memo 2023-80)

3. A physician specializing in gene therapy deducted legal expenses of $360,295 for two years on Schedule C of his joint tax returns. The court found that most of the legal fees were to defend the husband against personal conduct issues. The court denied the deduction for personal legal expenses but allowed a deduction for $13,000 for business-related legal expenses. (TC Memo 2023-42)

PROCEED WITH CAUTION

The deductibility of some expenses is clear, while others are more complicated. Keep careful records to substantiate expenses you plan to deduct. Generally, if an expense seems like it's not normal in your industry — or could be considered personal or extravagant — proceed with caution. Not surprisingly, the IRS and courts don't always agree with taxpayers about what is ordinary and necessary. (See examples in "Relevant U.S. Tax Court cases" above.) Contact us with questions about deductibility. ■

GETTING A NEW BUSINESS OFF THE GROUND

New businesses are launched every day, as evidenced by the number of Employer Identification Numbers requested, according to the U.S. Census Bureau. In the aftermath of the COVID-19 pandemic, there was a large increase in the number of businesses formed. For 2023, roughly 5.5 million new business applications were filed.

HOW TO TREAT EXPENSES FOR TAX PURPOSES

Entrepreneurs often don't know that many of the expenses incurred by start-ups can't be currently deducted on their tax returns. Be aware that the way you handle some of your initial expenses can make a large difference in your federal tax bill. Here are three rules to keep in mind if you're starting or planning to launch a new business:

1. Start-up costs include those incurred or paid while creating an active trade or business — or investigating the creation or acquisition of one.

2. Under the tax code, taxpayers can elect to deduct up to $5,000 of business start-up and $5,000 of organizational costs in the year the business begins. As you know, $5,000 doesn't go very far these days! And the $5,000 deduction is reduced dollar-for-dollar by the amount by which your total start-up or organizational costs exceed $50,000. Any remaining costs must be amortized over 180 months on a straight-line basis.

3. No deductions, including amortization deductions, are allowed until the year when "active conduct" of your new business begins. Generally, that means the year when the business has all the pieces in place to start earning revenue. To determine if a taxpayer meets this test, the IRS and courts generally ask questions such as: Did the taxpayer undertake the activity intending to earn a profit? Was the taxpayer regularly and actively involved? Did the activity actually begin?

ELIGIBLE EXPENSES

In general, start-up expenses are those you make to:

- Investigate the creation or acquisition of a business,
- Create a business, or
- Engage in a for-profit activity in anticipation of it becoming an active business.

To qualify for the election, an expense also must be one that would be deductible if it were incurred after a business began. One example is money you spend analyzing potential markets for a new product or service.

To be eligible as an "organization expense," an expense must be related to establishing a corporation or partnership. Some examples include legal and accounting fees for services related to organizing a new business and filing fees paid to the state of incorporation.

PLAN NOW

If you have start-up expenses that you'd like to deduct this year, you need to decide whether to take the election described above. Recordkeeping is critical. Contact us about your start-up plans. We can help with the tax and other aspects of your new business. ■

SENDING THE KIDS TO DAY CAMP MAY BRING A TAX BREAK

Among the many challenges of parenthood is what to do with your kids when school lets out. Babysitters are one option, or you might consider sending them to a day camp. There's no one-size-fits-all answer, but if you do choose a day camp, you could be eligible for a tax break. (Unfortunately, overnight camps don't qualify.)

DOLLAR-FOR-DOLLAR SAVINGS

Day camp can be a qualified expense under the child and dependent care tax credit. The credit is worth 20% to 35% of the qualifying costs, subject to an income cap. As of this writing, the maximum amount of expenses that can be claimed is $3,000 for one qualifying child or $6,000 for two or more children, multiplied by the percentage that applies to your income level. For those qualifying for the 35% rate with maximum expenses of $3,000, the credit equals $1,050, or $2,100 for two children with expenses of at least $6,000. The applicable credit percentage to use drops as your adjusted gross income (AGI) rises. When AGI exceeds $43,000, the percentage is 20% of qualified expenses, subject to the $3,000 or $6,000 limit.

Tax credits are particularly valuable because they reduce your tax liability dollar-for-dollar — $1 of tax credit saves $1 of taxes. This is compared to deductions, which simply reduce the amount of income subject to tax. So, if you're in the 24% tax bracket, a $1 deduction saves you only $0.24 of taxes.

QUALIFYING FOR THE CREDIT

Only dependents under age 13 generally qualify. However, the credit may also be claimed for expenses paid to care for a dependent relative, such as an in-law or parent, who is incapable of self-care. Eligible care costs are those incurred while you work or look for work.

Expenses paid from, or reimbursed by, an employer-sponsored Flexible Spending Account can't be used to claim the credit. The same is true for a dependent care assistance program.

DETERMINING ELIGIBILITY

Additional rules apply to this credit. Contact us if you have questions about your eligibility for the credit and the exceptions. ■

COLE, EVANS & PETERSON
CERTIFIED PUBLIC ACCOUNTANTS
POST OFFICE DRAWER 1768
SHREVEPORT, LA 71166-1768

HELP PREVENT FINANCIAL SCAMS AIMED AT OLDER PEOPLE

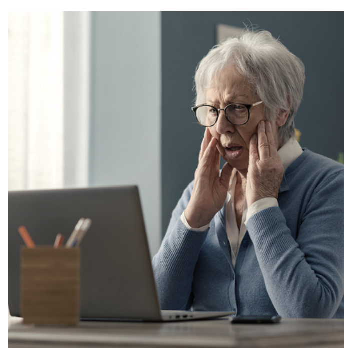
In any season, scam artists are seeking new ways to steal financial data and money from vulnerable people. Such fraudulent activities often target older adults. Whether you're in this age bracket or you worry about senior loved ones, here are seven ways to help prevent elder financial abuse and fraud:

1. Keep both paper and online financial documents in a secure place. Monitor accounts and retain statements.

2. Exercise caution when making financial decisions. If someone exerts pressure or promises unreasonably high or guaranteed returns, walk away.

3. Write checks only to legitimate financial institutions, rather than to a person.

4. Be alert for phony phone calls. The IRS doesn't collect money this way. Another scam involves someone pretending to be a grandchild who's in trouble and needs money. Don't provide confidential information or send money until you can verify the caller's identity.



5. Beware of emails requesting personal data — even if they appear to be from a real financial institution. Remember, your banker or financial professional already has your personal information. Ignore contact information provided in emails. Instead, contact financial institutions through phone numbers you look up yourself.

6. As much as possible, maintain a social network. Criminals target isolated people because often they're less aware of scams and lack trusted confidants.

7. Work only with qualified professionals, including accountants, bankers and attorneys.

Most important, never let your guard down. Thieves are on the lookout for vulnerable people, so proactively be on the lookout for thieves. ■