

# COLE, EVANS & PETERSON

CERTIFIED PUBLIC ACCOUNTANTS

FIFTH FLOOR TRAVIS PLACE

624 TRAVIS STREET

SHREVEPORT, LOUISIANA 71101-3013

www.cepcpa.com

WILLIAM JEFFERSON COLE (2024)  
M. ALTON EVANS, JR. (2022)  
TIMOTHY R. DURR (2023)

OF COUNSEL

BARRY S. SHIPP, C.P.A.  
STEVEN W. HEDGEPEETH, C.P.A.  
CAROL T. BARNES, C.P.A.  
AUSTIN G. ROBERTSON, JR., C.P.A.

ERIC D. SMITH, 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.  
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.  
MADISON PAIGE LAIRD, C.P.A.  
MARY HANNAH WILLIAMS, C.P.A.

JANA JOHNSTON COX, C.P.A.  
BONNIE C. PESNELL, C.P.A.  
MANDI ROSE KILLIAN, C.P.A.  
SARA E. HEDGEPEETH, C.P.A.  
CHRISTOPHER A. WILLIAMS, C.P.A.  
JACOB A. TADLOCK, C.P.A.  
TIMOTHY A. SMITH, C.P.A.  
THERESA D. PARKER, C.P.A.  
LAURA C. SPEIR, C.P.A.

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

MAILING ADDRESS:

POST OFFICE DRAWER 1768  
SHREVEPORT, LOUISIANA 71166-1768

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## WHERE DO YOUR PREMIUM DOLLARS GO? UNDERSTANDING INSURANCE LOSS RATIOS

When insurance premiums are paid, the portion returned to policyholders in claims compared to the portion retained by the insurance company for expenses and profit is measured by what insurers call the loss ratio.

Loss Ratio = Claims Paid ÷ Premiums Collected – This formula shows how much of each premium dollar is returned to policyholders through claims. A high loss ratio indicates that most premiums go toward claim payments, while a lower ratio means more is retained by the insurance company for overhead, commissions, reserves, and profit. Loss ratios differ widely across types of insurance. Following is how they generally compare across major categories.

Health Insurance: Highest Ratios – In the United States, health insurers must meet strict requirements under the Affordable Care Act. They are required to spend at least 80%–85% of premiums on medical claims and quality improvements. In practice, most large insurers report loss ratios in the 82%–88% range. This ensures that the majority of premiums cover policyholders' health care costs.

Auto and Home Insurance: The Mid-Range – Property and casualty insurance, such

as auto and homeowners, typically produces loss ratios of 60%–75%. For every dollar of premium, about 60–75 cents is paid back in claims. The remainder covers the insurer's operating costs, commissions to agents, and company profit. Severe weather, litigation costs, and inflation can cause loss ratios to be much higher in some years.

Life Insurance: Term vs. Cash Value – Life insurance loss ratios vary depending on the type of policy. Term life insurance, which provides pure protection with no investment element, generally shows higher loss ratios, often in the 70%–85% range. Most of the premium goes directly toward covering mortality risk and paying death benefits. In contrast, cash value policies (such as whole life and universal life) – which combine insurance with an investment – usually report lower loss ratios, often 40%–60%, because a large portion of each premium funds long-term reserves and investment obligations rather than immediate claims. Much of the premium is set aside to pay benefits decades later or to build cash value for the policyholder. As we have written before, we recommend that individuals purchasing life insurance buy term insurance rather than cash value life insurance.

(Continued on reverse)

Travel, Credit, and Extended Warranties: The Lowest Ratios – Some specialty insurance products are uniquely designed.

- Travel insurance often has claims ratios of just 30%–40%, and in some cases under 20%. Most trips go well resulting in no claim filed;
- Credit insurance (coverage that pays debts if a borrower dies or becomes disabled) has historically had loss ratios in the 30%–45% range;
- Extended warranties or service contracts on cars, electronics, or appliances might

have loss ratios of 20%–40%, with a large portion of the premium covering sales commissions and overhead rather than claims.

Accordingly, we generally recommend against purchasing such coverage.

Insurance is a risk-sharing arrangement. By pooling the premiums of many policyholders, companies can pay for the large, unexpected losses of the few. The purpose of insurance is to financially protect against something one cannot afford to lose. However, considering the premiums and loss ratios, the odds will favor the insurance company.

#### STABLECOIN VS. UNBACKED CRYPTOCURRENCY: UNDERSTANDING THE DIFFERENCE

Digital assets are becoming a regular part of today's financial conversation, but terms like cryptocurrency and stablecoin are often used as if they mean the same thing. Understanding the difference helps business owners and investors see where digital currency fits within traditional finance.

Stablecoins, such as *Tether (USDT)* and *USD Coin (USDC)*, are cryptocurrencies designed to maintain a constant value, typically pegged to the U.S. dollar. Each token is intended to represent one dollar and is marketed as being backed by reserve assets such as cash or short-term U.S. Treasury bills. They are designed for stability. They serve as a bridge between the traditional financial system and the digital world, allowing quick transfers and payments without price volatility.

For U.S. individuals and businesses operating within the domestic banking system, however, there is little or no material advantage to using stablecoins. Traditional payment methods (e.g., ACH transfers, debit cards, and wire systems) already provide fast, secure dollar transactions with consumer

protections, federal oversight, and FDIC insurance. Stablecoins can be useful for cross-border payments or for users in countries with unstable currencies, but for U.S. commerce they generally add complexity without meaningful benefit.

Unbacked Cryptocurrencies, such as *Bitcoin* and *Ethereum*, are fundamentally different from stablecoins. They are not linked to any government currency or reserve. Their prices fluctuate based on market demand and investor sentiment. Bitcoin, for example, was created as a decentralized alternative to money, with a fixed supply that makes it behave more like a digital commodity than a dollar substitute. These assets can experience substantial price volatility over short periods of time.

Despite growing public attention, many cryptocurrencies remain highly speculative and volatile assets. Unlike traditional investments, they do not produce earnings or cash flow. Individuals and businesses should exercise caution before buying cryptocurrency. Please let us know if you would like to discuss.

# Cole, Evans & Peterson, CPAs

## www.cepcpa.com

624 Travis Street

Shreveport, Louisiana 71101

(318) 222-8367

## Tax & Business Alert

JUNE 2026

### TAKE ADVANTAGE OF EXPANDED QSB STOCK TAX BENEFITS

Investors often look to small, emerging companies for portfolio diversification and growth potential, but these investments can offer more. Certain shares may also provide valuable tax advantages under the qualified small business (QSB) stock rules. And last year's One Big Beautiful Bill Act (OBBBA) enhanced those benefits.

#### THE BASICS OF QSB STOCK

A QSB is a domestic C corporation that meets specific requirements. First, the company must be engaged in an active trade or business. Many professional service businesses are excluded, though certain health- and engineering-related companies may qualify, depending on the nature of their activities.

There's also a gross-asset limit. Before the OBBBA, a company's aggregate gross assets generally couldn't exceed \$50 million. The OBBBA increases the asset

ceiling to \$75 million (adjusted for inflation after 2026) for stock issued after July 4, 2025.

#### SHORTER HOLDING PERIODS

The major tax benefit of investing in QSB stock is the potential exclusion of capital gains when the stock is sold. Before the OBBBA changes went into effect, you generally needed to hold QSB stock for at least five years to qualify for a capital gains exclusion, with the exclusion percentage ranging from 50% to 100%, depending on when the stock was acquired.

Under the OBBBA, a new tiered system with smaller exclusions applies to QSB stock acquired after July 4, 2025. It provides a 50% exclusion for stock held for at least three years and a 75% exclusion for stock held for at least four years. Any gain not excluded under these partial exclusions is generally taxed at a special 28% federal rate, plus the 3.8% net investment income tax, if applicable.

QSB stock acquired on or before July 4, 2025, generally remains subject to the prior rules, including eligibility for a 100% exclusion after five years for stock acquired on or after September 28, 2010.

#### EXPANDED GAIN EXCLUSION LIMITS

The OBBBA also increased the limit on the amount of gain you can exclude. For QSB stock acquired after July 4, 2025, the per-issuer exclusion limit is the greater of \$15 million (adjusted for inflation after 2026) or 10 times the aggregate adjusted basis of stock sold during



the tax year. Before the OBBBA change went into effect, the dollar limit was \$10 million. (Both amounts are halved for married taxpayers filing separately.)

To qualify for the exclusion, you generally must acquire the stock at original issuance — directly from the corporation or through an underwriter — in exchange for cash, property (other than stock) or services. Limited exceptions apply, including certain transfers by gift or inheritance.

If you reinvest proceeds from a QSB stock sale into other QSB stock within 60 days, you may be able to

defer the gain until you dispose of the new stock. The rolled-over gain reduces your basis in the new stock. For determining long-term capital gains treatment, the new stock's holding period includes the holding period of the stock you sold.

### MOVING FORWARD

QSB stock can offer valuable tax benefits. But the rules are complex and require careful planning. Additionally, some states don't conform to federal treatment, so state income taxes may still apply, depending on the state. Contact us if you have questions. ■

## REDUCING IRS AUDIT RISK FOR SMALL BUSINESSES

When business owners think about risk, they often focus on market pressures or operational challenges. An IRS audit usually isn't top of mind — but it can be costly, disruptive and time-consuming. Although some taxpayers are randomly selected for an audit, many audits occur because the IRS has identified certain patterns or inconsistencies. Understanding where these risks typically arise can help you limit your business's exposure.

### 5 KEY AUDIT RISK AREAS

The following risk areas can result in additional IRS scrutiny:

#### 1. Inconsistent or unreported income.

Drastic shifts in revenue from one year to the next can prompt IRS attention, especially when they conflict with industry trends or economic conditions. Income mismatches identified through third-party reporting — including 1099 forms and payment-platform data — may lead to follow-up inquiries. Accurate records are critical when income fluctuates significantly.

**2. Excessive or unusual deductions.** Deductions that appear disproportionate to income or far outside industry norms may raise IRS concerns. Only expenses that are “ordinary and necessary” for business operations are deductible. Personal expenses — including personal vehicle use, clothing and nonbusiness travel — are common audit issues. Careful records are especially important for meal, travel and vehicle-related deductions.

**3. Repeated business losses.** Consistently reporting losses may signal that a business isn't operated for profit. While legitimate losses occur — particularly during startup phases or



economic downturns — ongoing losses should be supported by strong documentation, financial planning and a clear profit motive.

**4. Weak recordkeeping practices.** Incomplete or disorganized records increase both audit risk and audit difficulty. Missing receipts, inconsistent financial statements or unclear bookkeeping practices can jeopardize deductions. Digital accounting tools make it easier and more defensible than ever to maintain accurate, well-organized records.

**5. Worker misclassification.** Misclassifying employees as contractors can result in back payroll taxes, penalties and interest. The key factor is the degree of control the business exercises over how the work is performed, not how the worker is paid or labeled.

### STAYING AHEAD OF AUDIT RISK

No business is immune to audit risk, but consistent reporting, accurate records and informed guidance can significantly reduce exposure — and put your business in a better position if you *are* audited. We can help your business stay compliant, identify potential issues early and respond effectively if the IRS requests information. ■

## HOW AN EDUCATIONAL ASSISTANCE PROGRAM CAN STRENGTHEN YOUR COMPANY'S BENEFITS PACKAGE

If your business is like many today, you're seeking more ways to attract and retain talent. One option is to offer tax-advantaged educational assistance under Internal Revenue Code Section 127. Recent legislative changes have expanded the value of this benefit.

### HOW THE PLANS WORK

Employer-sponsored Sec. 127 educational assistance programs allow employees to receive tax-free educational benefits up to an annual limit (\$5,250 for 2026). The benefits are excluded from the employee's gross income for federal tax purposes. For employers, the amounts paid are deductible as business expenses.

But the plan doesn't have to be prefunded. You can pay or reimburse expenses as they're incurred.

Eligible expenses include tuition, books, fees, supplies and equipment for coursework. However, certain expenses, such as meals, lodging or transportation — as well as tools or supplies that employees retain after completing a course — don't qualify. Also ineligible are expenses for courses involving sports, games or hobbies unless they're required as part of a degree program.

*When properly implemented, Sec. 127 plans can help you attract, develop and retain talent while delivering tax advantages.*

To qualify as a Sec. 127 program, the plan must be established in writing and meet specific requirements. The plan can benefit only employees — not their spouses or dependents.

### RECENT ENHANCEMENTS

The One Big Beautiful Bill Act (OBBBA), enacted on July 4, 2025, made two important changes to Sec. 127 plans. First, it introduced an inflation adjustment to the annual cap. For tax years beginning after 2026, the \$5,250 limit will be indexed for inflation (rounded down to the nearest \$50), helping maintain the benefit's value over time.

Second, the OBBBA made permanent the eligibility of employer payments for qualified student loans as a

Sec. 127 expense. This means you can pay up to the annual cap toward an employee's qualified student loan, and those payments will be excluded from the employee's income.



### COMPLIANCE CONSIDERATIONS

Sec. 127 plans must follow additional rules. For example, you can't offer educational assistance as a choice between this tax-free benefit and taxable compensation, such as wages. And you must provide employees reasonable notice of the plan's availability and terms.

Additionally, nondiscrimination requirements and ownership-concentration limitations apply. For example, no more than 5% of total plan benefits for the year may be provided, in the aggregate, to employees who are more-than-5% owners of the business or to their spouses or dependents.

### RULES FOR FAMILY EMPLOYEES

Sec. 127 plan benefits can extend to employees who are related to business owners, including children, as long as they're bona fide employees and the plan satisfies applicable nondiscrimination requirements and ownership-concentration limitations.

Ownership attribution rules may affect whether an individual is treated as a more-than-5% owner for these purposes, particularly in closely held businesses.

### TAKING THE NEXT STEP

Properly implemented Sec. 127 plans can help employers attract, develop and retain talent. Contact us to discuss whether such a plan makes sense for your business. ■

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

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## GET AHEAD WITH A MIDYEAR TAX REVIEW

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To help prevent surprises when you file your federal tax return next tax season, perform a midyear tax checkup. Life changes, such as a new job, additional side income or investment gains, can affect your tax picture more than you might expect. Taking time now to review key areas can reduce the risk of certain penalties and uncover tax savings opportunities.

Start by reviewing your withholding and estimated tax payments. If your income has changed, you may need to update your Form W-4 so that your withholding accurately reflects your current circumstances. If you're self-employed or have significant income not subject to withholding (such as dividends or capital gains), you may need to make quarterly estimated tax payments to avoid underpayment penalties.

Next, revisit deductions and credits. Changes in your filing status, dependents, education expenses or homeownership can affect eligibility. Additionally, increased charitable giving may create tax-saving opportunities. Keep organized records of charitable contributions, medical expenses, and, if you're

self-employed, business costs to substantiate claims and maximize benefits.



It's also a good time to reevaluate retirement contributions. Increasing contributions to employer plans or IRAs can reduce taxable income and strengthen long-term savings. If you're eligible to contribute to a Health Savings Account, consider funding it as well to

take advantage of its triple tax benefits (deductible contributions, tax-deferred growth and tax-free withdrawals for qualified medical expenses).

Being proactive gives you time to manage potential tax exposure and identify tax-saving opportunities that might otherwise be overlooked. If you need guidance, we can help model different scenarios and determine the best strategy. ■