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OCTOBER 2024

SMALL FEES MATTER

In our August newsletter, we updated our comparison of long-term investment returns for large cap stocks (S&P 500), long-term corporate bonds, and long-term U.S. government bonds, which continued to show the historical benefit of broad-based equity investing as compared to investing in bonds. The investment returns that we reported for the large cap stocks, however, were the straight S&P 500 index market returns and not quite the actual investment returns one would have realized from investment in a S&P 500 index mutual fund. That is because a mutual fund charges a fee. Vanguard 500 Index Fund (Admiral shares) charges an annual fee of 0.04% (4¢ per \$100 of asset value). Fidelity 500 Index Fund charges 1.5¢ per \$100 of asset value. Actively managed funds PrimeCap Fund (Vanguard) and The Growth Fund of America

(American Funds) charge 38¢ and 63¢ per \$100 of asset value, respectively.

Actively managed mutual funds have historically charged much larger fees, not just to manage the investments, but also to buy and/or sell the fund shares. With the rising popularity of low-fee passively managed index funds, actively managed mutual funds reduced their fees, but they are still considerably higher than the fees for passive index funds. Even higher, however, are the fees one might expect to pay for an investment in private equity funds and hedge funds, which are heavily marketed to high-net-worth individuals.

The following table shows the impact of annual fees for a \$100,000 investment with an annual investment return of 10 percent before fees.

Annual Fees (% of Asset Value)	0.00%	0.04%	0.38%	0.63%	2.00%	4.00%	6.00%
Annual Investment Return Before Fees	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Initial Investment	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Investment Balance:							
10 years	259,375	258,431	250,551	244,895	215,894	179,085	148,023
20 years	672,752	667,870	627,762	599,738	466,100	320,714	219,111
30 years	1,744,944	1,725,993	1,572,872	1,468,734	1,006,274	574,349	324,338
Comparison With Zero Fees (%):							
10 years	100.00%	99.64%	96.60%	94.42%	83.24%	69.04%	57.07%
20 years	100.00%	99.27%	93.31%	89.15%	69.28%	47.67%	32.57%
30 years	100.00%	98.91%	90.14%	84.17%	57.67%	32.92%	18.59%

(Continued on reverse)

With the increasing awareness and popularity of low-cost index funds, the investment advisor industry is busy and determined in designing and marketing new, more complicated products to generate increased fees. But, net investment returns over long periods of time can be significantly affected by surprisingly small changes, whether those changes are from the investment return before expenses or from

expenses charged against the investment return.

Fees (even small fees) matter. As Warren Buffet has said, ". . . for most people, the best thing to do is own the S&P 500 index fund. . . . The trick is not to pick the right company. The trick is to essentially buy all the big companies through the S&P 500 and to do it consistently and to do it in a very, very low-cost way."

ELECTRIC VEHICLE INCOME TAX CREDIT

A federal income tax credit of up to \$7,500 is available for the purchase of a new electric vehicle (EV). For a used EV, the credit is up to \$4,000. The credit is available through December 31, 2032 and is applicable to the purchase of a battery electric vehicle (BEV), a plug-in hybrid electric vehicle (PHEV), and a fuel cell electric vehicle (FCEV). The tax credit does not apply to the purchase of a non-plug-in hybrid electric vehicle (HEV).

To be eligible for the new EV credit, the MSRP of a new pickup truck, van, or SUV must be \$80,000 or less. For all other new passenger vehicles, the MSRP must be \$55,000 or less. For a used EV, the sale price must not exceed \$25,000. Not all EVs qualify for the full credit, which depends on many factors. The list of eligible models and applicable MSRP amounts can be found on FuelEconomy.gov. In addition, for new vehicles, the taxpayer's modified adjusted gross income (MAGI) for the purchase year (or for the year immediately prior to purchase, if less) must be \$300,000 or less for joint filers; \$225,000 or less for head-of-household filers; \$150,000 for all others. For previously owned EVs, the taxpayer's MAGI must be \$150,000 or less for joint filers; \$112,500 or less for head-of-household filers; \$75,000 for all others. Also, for previously

owned EVs, one may claim the credit only once every three years.

At the time of purchase, the dealer should provide the buyer with a time-of-sale report, which will have the information required to claim the credit (dealer name, address, VIN, make, model, placed-in-service date, and maximum credit), all of which is reported on the taxpayer's Form 8936, Schedule A included with the income tax return.

As an alternative to claiming the tax credit on one's income tax return, the buyer may instead use the credit at the time of purchase to reduce the net sale price paid to the dealer (who then claims the credit with the IRS). In that case, however, when the buyer's income tax return is filed (reporting the credit on Form 8936), any excess credit that was allowed by the dealer at the time of purchase must be added to the buyer's current income tax and, therefore, repaid to the IRS.

Whether or not one is an advocate of government subsidies that are intended to influence people's buying habits or other behavior, such government incentives have a long history.

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Tax & Business Alert

OCTOBER 2024

BOOST MORALE AND SAVE TAXES WITH ACHIEVEMENT AWARDS

Some small businesses struggle with employee morale for a variety of reasons, one of which may be economic uncertainty. If you want to boost employees' spirits without a big financial outlay, an achievement awards program is a relatively low-cost fringe benefit that may be a win-win addition.

Under such an initiative, you can hand out awards at an appointed time, such as a year-end ceremony or holiday party. And, as long as you follow the rules, the awards will be tax-deductible for your company and tax-free for recipient employees.

FULFILLING THE REQUIREMENTS

To qualify for favorable tax treatment, achievement awards must be tangible items, ranging from a gold watch or a smartphone to a plaque or a trophy, which are granted to employees for either length of service or promoting safety in the workplace. The award can't be disguised compensation or a payoff for closing a big deal. Examples of awards that would violate the rules are gift certificates, vacations, or tickets to sporting events or concerts.

The awards program also must meet the following three requirements:

1. Safety awards can't go to managers, administrators, clerical workers or other professional employees. Also, an award doesn't qualify for favorable tax treatment if the company grants safety awards to more than 10% of eligible employees in the same year.

2. Any employee can receive a length-of-service award, but the recipient employee must have worked for the business for at least five years to receive one. In addition, an employee is ineligible if he or she received a length-of-service award within the last five years.

3. The award must be part of a "meaningful presentation." That doesn't mean you have to host a gala awards dinner at the Ritz, but the award should be marked by a ceremony befitting the occasion.



NONQUALIFIED VS. QUALIFIED

There are limits on an award's value depending on whether the achievement awards program is nonqualified or qualified. If you establish a nonqualified program, the annual maximum award is \$400. Conversely, the maximum for a qualified

program is \$1,600 (including nonqualified awards). Any excess above these amounts is nondeductible for the employer and taxable to the employee. If an employee receives multiple awards in one year, these figures apply to the total, not to each individual award.

To establish a qualified program, and therefore benefit from the higher limit, you must meet two additional requirements. First, awards must be granted under a written plan and the plan must be open to all eligible employees without favoritism. Also, it must not discriminate in favor of highly compensated employees

as to eligibility or benefits. For 2024, the salary threshold for a highly compensated employee is \$155,000.

Awards of nominal value are generally not taxable. These are small infrequent gifts such as a coffee mug, a t-shirt or an occasional meal.

EXPLORE THE IDEA

If an achievement awards program makes sense for your company, you need to ensure that these requirements are met to avoid negative tax consequences. Contact us for guidance in setting up a program that checks all the boxes. ■

THE RISE OF CHECK KITING AND OTHER CHECK FRAUD

While the use of paper checks has greatly diminished, thieves still view them as a source for stealing revenue. In fact, the Financial Crimes Enforcement Network warns that many thieves are returning to old-fashioned financial theft, using paper checks. That's one reason why the U.S. Postal Service urges us to not send checks through the mail, where they may be vulnerable.

“Check kiting” is one type of fraud that relies on “float time.” That's the period of delay between when a check is deposited in a bank and when the bank collects the related funds. In recent years, float time has narrowed, but it hasn't disappeared. Generally, there's enough delay that unethical businesses can take advantage of that time.



Typically, a check-kiting scheme involves two or more banks, or multiple accounts at one bank. The perpetrator's goal is to falsely inflate the account balance, allowing checks that would otherwise bounce to clear. This is a federal crime that can result in up to 30 years in federal prison, plus hefty fines. Even if a bank doesn't press charges, it may close the account and report the incident to ChexSystems, which is similar to a credit bureau.

STRATEGIES FOR THWARTING CHECK FRAUD

Here are five strategies you can implement to keep people from using your company's accounts for fraudulent activity, including check kiting.

1. Educate employees about bank fraud.

Teach them to recognize fraudulent transactions and related red flags. Workers who are aware of suspicious activities can bolster management's commitment to preventing fraud.

2. Rotate key accounting roles. Segregate accounting duties. By rotating tasks among staffers, if possible, you can help uncover ongoing schemes and limit opportunities to steal.

3. Reconcile bank accounts daily. Make sure someone trustworthy, who isn't involved in issuing payments, reconciles every company bank account.

4. Maintain control of paper checks.

Store blank checks in a locked cabinet or safe and periodically inventory the blank check stock. Also limit who's allowed to order new checks.

5. Go digital. The most effective way to prevent check fraud is to stop using paper checks altogether. Consider replacing them with ACH payments or another form of electronic payments.

The bottom line is, it's a mistake to assume that check fraud is too old-fashioned to attract the attention of thieves.

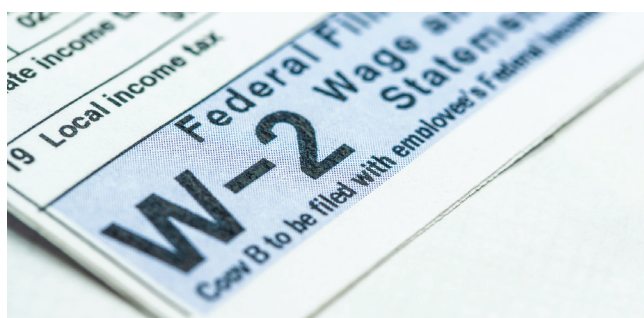
TIGHTEN UP

Check fraud schemes are somewhat easy to perpetrate, but vigilance in your banking processes can help thwart it. For help tightening your internal controls, contact us. ■

WHEN IS EMPLOYER-PROVIDED LIFE INSURANCE TAXABLE?

If the fringe benefits of your job include employer-paid group term life insurance, a portion of the premiums for the coverage may be taxable. And that could result in undesirable income tax consequences for you.

The cost of the first \$50,000 of group term life insurance paid by your employer is excluded from taxable income. But the employer-paid cost of that coverage over \$50,000 is taxable to you and included in the taxable wages reported on your Form W-2, even if you never actually receive any benefits from it. That's called "phantom income."



HAVE YOU REVIEWED YOUR W-2?

If you think the tax cost to you of employer-provided group term life insurance is too high, you can check your W-2. If there's a dollar amount in Box 12 (with code "C"), that's the amount your employer paid

to provide you with group term life insurance over \$50,000, minus any amount that you paid for the coverage. You're responsible for any taxes due on the amount in Box 12, including employment tax.

The amount in Box 12 is already included as part of your total "Wages, tips and other compensation" in Box 1 of the W-2. It's the amount in Box 1 that's reported on your tax return.

WHAT ARE YOUR OPTIONS?

If the tax cost seems too high for the benefit you're getting, ask your employer if they have a "carve-out" plan, which allows certain employees to opt out of the group coverage. If there's no such option, ask your employer if they'd be willing to create one.

Carve-out plans vary, but one option is for the employer to continue to provide \$50,000 of coverage at no cost to you. The employer could then either provide you with an individual policy for the balance of the coverage, or a cash bonus representing the amount the employer would've spent for the excess coverage. You can then use that money to pay premiums for an individual policy.

WE CAN HELP

You may have other questions about your group term life insurance benefit. Feel free to contact us for answers. ■

TAX CALENDAR

October 10

Employees must report September tip income of \$20 or more to employers (Form 4070).

October 15

Individuals whose personal federal income tax returns for 2023 received an automatic extension must file them no later than today and pay any tax, interest and penalties due. In addition:

- Those with offshore bank accounts must file the Financial Crimes Enforcement Network (FinCEN) Report 114 "Report of Foreign Bank and Financial Accounts" (also known as the "FBAR"), if not filed already. (This report received an automatic extension to today if not filed by the original due date of April 15th.)
- Calendar-year C corporations that obtained an extension should file their 2023 Form 1120 by this date.
- If the monthly deposit rule applies, employers must deposit the tax for payments in September for Social Security, Medicare, withheld income tax and nonpayroll withholding.

October 31

Employers must file Form 941 for the third quarter of 2024 (November 10 if all taxes are deposited in full and on time).

Also, employers must deposit FUTA taxes owed through September if the liability is more than \$500.

November 12

Employees must report October tip income of \$20 or more to employers (Form 4070).

November 15

Calendar-year tax-exempt organizations that obtained an exemption should file their 2023 returns. In addition:

- If the monthly deposit rule applies, employers must deposit the tax for payments in October for Social Security, Medicare, withheld income tax and nonpayroll withholding.

December 10

Employees must report November tip income of \$20 or more to employers (Form 4070).

December 16

Calendar-year corporations must pay fourth quarter 2024 estimated tax payments. In addition:

- If the monthly deposit rule applies, employers must deposit the tax for payments in November for Social Security, Medicare, withheld income tax and nonpayroll withholding.

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AN IRA WITHDRAWAL STRATEGY WITH TAX-REDUCING POWER

As the year winds to a close in just a couple of months, your chance to lower your 2024 tax bill also winds down. Certain taxpayers may be able to make qualified charitable distributions (QCDs) to lower their taxable incomes and at the same time, fulfill a few other goals. To be eligible, you must be at least 70½ and own, or be the beneficiary of, an IRA. A QCD must be transferred directly from your custodian to an IRS-approved charity.

HOW A QCD WORKS

If you're eligible, you can use the funds in your IRA to donate up to \$100,000 (indexed annually for inflation) to an IRS-approved charity directly from your IRA. If you're married and file jointly and your spouse also meets the age requirement, you can donate up to \$200,000. Such a donation may fulfill your annual required minimum distributions, if applicable and all rules are met.



A QCD can't be claimed as part of your charitable contribution deductions. But the amount of your QCD is removed from your taxable income, which may preserve your

eligibility for other tax breaks. Also, as an eligible IRA owner, you can make a QCD whether or not you itemize deductions on your Schedule A. You may find that taking the standard deduction works better for your overall tax-reducing strategy.

Normally, distributions from a traditional IRA are taxable when received. To ensure your QCD becomes tax-free, it must be paid from an IRA custodian or trustee, directly to an IRS-approved charity. Don't take chances. Contact your trusted advisor to nail down the details. ■