



NEWSLETTER

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WELCOME TO OUR QUARTERLY NEWSLETTER, DEDICATED TO PROVIDING SMALL BUSINESS OWNERS WITH VALUABLE INSIGHTS AND STRATEGIES TO OPTIMIZE THEIR TAX SAVINGS. IN EACH EDITION, WE'LL SHARE EXPERT TIPS, PRACTICAL ADVICE, AND UPDATES ON TAX LAWS AND REGULATIONS TO HELP YOU NAVIGATE THE COMPLEXITIES OF THE TAX CODE WITH CONFIDENCE.

READ ON AS WE EXPLORE INNOVATIVE TAX-SAVING STRATEGIES, DEBUNK COMMON MYTHS, AND PROVIDE GUIDANCE TAILORED TO THE UNIQUE NEEDS OF SMALL BUSINESSES.

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HOW TO AVOID PENALTIES FOR UNDERPAYMENT ON YOUR TAX RETURN

Paying taxes is never fun...but paying a penalty on top of it is even worse. As a tax expert, my goal is to help you understand how to avoid these penalties and ensure you are compliant with IRS requirements.

First off, let's understand when and why these penalties are assessed.

Understanding Underpayment Penalties

PENALTIES

The US Tax System is a "pay as you earn" system. So as you earn money, you are expected to pay tax on it (NOT wait until April 15 to pay). The IRS imposes underpayment penalties when you do not pay enough tax throughout the year. This can happen if you underpay through estimated tax payments or if too little is withheld from your wages. The penalties are calculated based on the difference of the amount you should have paid versus the amount you actually paid.

An easy way to avoid penalties is to pay at least 90% of the tax you owe for the current year (which is usually hard to predict) or 100% of the tax you owed the previous year, whichever is smaller. For higher-income individuals (AGI over \$150,000), the safe harbor is 110% of the previous year's tax.

What does that mean? **Look at Line 11 of your 2023 1040 Tax Return.**

.....➔ If it is more than \$150K, then multiply line 24 by 110% and this is the amount of tax you need to pay in 2024 to avoid the underpayment penalty.

.....➔ If Line 11 is less than \$150K then look at line 24. This is the amount of tax you need to pay in 2024 to avoid the underpayment penalty.

By paying AT LEAST the amount calculated here, you will not have to pay a penalty.

However, you could still be hit with a tax bill when you file your taxes if you are not withholding enough or making accurate quarterly payments- especially if your income has increased from last year.

Staying informed and being proactive are the keys to a smooth tax filing experience. If you have any questions or need assistance, feel free to reach out for professional guidance

HOW TO AVOID PENALTIES FOR UNDERPAYMENT ON YOUR TAX RETURN (CONTINUED)

Strategies to Avoid Underpayment Penalties

1. Accurate Withholding

- **Review Your Withholding:** Ensure that your employer withholds the correct amount of tax from your paycheck. Mid-year is a good time to check on your withholding amounts to ensure you will meet the minimum threshold for the current year. *If your income has significantly decreased, you may not need to meet this requirement.
- **Adjust as Needed:** Life changes such as marriage, having a child, or changes in income can affect your withholding needs. Update your W-4 form with your employer to reflect these changes.

2. Make Estimated Tax Payments

- **Who Needs to Pay:** If you are self-employed, have significant investment income, or receive other income not subject to withholding, you will likely need to make estimated tax payments.
- **Quarterly Payments:** Pay estimated taxes quarterly to avoid penalties. The deadlines are typically April 15, June 15, September 15, and January 15 of the following year.

3. Stay Informed and Plan Ahead

- **Get an Account with irs.gov:** Login here to pay and keep track of your estimated/other payments throughout the year.

4. Respond Promptly to IRS Notices

- **Understand the Notice:** If you receive a notice from the IRS about an underpayment penalty, read it carefully to understand why it was issued.
- **Dispute if Necessary:** If you believe the penalty was assessed in error, you can dispute it by providing documentation to support your claim. A tax professional can assist you with this process.

5. Consult with a Tax Professional

- **Alternate Reporting:** If your income fluctuates throughout the year, you might benefit from annualizing your income. A tax professional can assist you with filing the correct paperwork to get your penalty adjusted or reduced.
- **Current Year Tracking:** As mentioned above, ensuring you have up to date bookkeeping done will assist with accurate estimated payments and help avoid surprises at tax time.
- **Maximize Deductions:** Tax professionals will ensure you are taking full advantage of all available deductions and credits, such as business expenses, education credits, and retirement contributions. These can reduce your overall tax liability and help you avoid underpayment penalties.

Final Thoughts

Avoiding underpayment penalties requires careful planning and proactive management of your tax obligations. By understanding the rules, keeping accurate records, and making timely payments, you can minimize your risk of incurring penalties. If you have complex tax situations or are unsure about your tax status, consider consulting a tax professional who can provide personalized advice and support.

FROM GAILO'S DESK: CAN I WRITE OFF BUSINESS DONATIONS?



A lot of our clients are very generous and want to donate on behalf of their business. Naturally, the question is, "Can I write off my charitable donations made on behalf of my business?"

The answer is: It depends...

Most small businesses are not incorporated and therefore do not file a corporate tax return. Most of the clients we work with fall into this non-corporate category.

While a donation can be made by your business, the deduction is ultimately claimed on your personal income tax return if you itemize deductions. The donation does not directly reduce the income of your business reported on your Income Statement and Tax Return.

If your donations and other qualified itemized deductions do not exceed the tax year's Standard Deduction, (see the end of the newsletter for the 2024 Standard Deduction amounts) then it is in your best interest to choose the Standard Deduction.

As always, good record keeping is required. If you plan to make a donation of cash, ask for a receipt or maintain a copy of the check you wrote. If you make a non-cash donation, special documentation may be required to establish the value of your donation. You should consult with your tax professional to determine the requirements.

If your business sponsors an event that requires a certain donation or payment to be listed on any marketing materials, this could be considered an advertising expense. Donating your services to an organization is another way to market your business, although it is not tax deductible.

OUR REFERRAL PARTNERS



We LOVE BlueVine! Not only do they offer 2% (or more) interest, they also make it so easy for our clients to provide true Accountant Access for us. We get read-only permissions and never have to bother you to send us a statement again! You can also pay vendors and set up ACH payments!

401GO is our choice when it comes to setting up 401Ks for our (and your!) business. You can set it up on your own or we can help! There is a tax credit available, and these contributions reduce your taxable income! Not to mention you are saving for your retirement. WAY TO GO!



TAX TALK: NEW STANDARD DEDUCTION RATES FOR 2024

Inflation...that's been a constant topic this year. However, the IRS adjusts many tax figures each year as a result of inflation rates. In this case, the standard deduction (or income you can make before you pay tax on it) has increased again. See the chart below for the updated 2024 figures.

Filing Status	Deduction Amount
Single	\$14,600
Married Filing Jointly	\$29,200
Head of Household	\$21,900
Additional Amount for Married Seniors	\$1,550
Additional Amount for Unmarried Seniors	\$1,950

Source: Internal Revenue Service, "Revenue Procedure 2023-34."

Tax Rate Thresholds also adjust...

Tax Rate	For Single Filers	For Married Individuals Filing Joint Returns	For Heads of Households
10%	\$0 to \$11,600	\$0 to \$23,200	\$0 to \$16,550
12%	\$11,600 to \$47,150	\$23,200 to \$94,300	\$16,550 to \$63,100
22%	\$47,150 to \$100,525	\$94,300 to \$201,050	\$63,100 to \$100,500
24%	\$100,525 to \$191,950	\$201,050 to \$383,900	\$100,500 to \$191,950
32%	\$191,950 to \$243,725	\$383,900 to \$487,450	\$191,950 to \$243,700
35%	\$243,725 to \$609,350	\$487,450 to \$731,200	\$243,700 to \$609,350
37%	\$609,350 or more	\$731,200 or more	\$609,350 or more

Source: Internal Revenue Service, "Revenue Procedure 2023-34."



**We love our clients!
Referrals are always
appreciated!**

**IMPORTANT!!
BUSINESS OWNER REMINDERS**

IRS Quarter 3 is actually 3 months long - it just isn't a financial quarter! The IRS deadline for Q3 Estimated payments is

SEPTEMBER 16, 2024.

Your quarterly payment should reflect your income from June, July & August.

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If you start a business in 2024 and fall under the Corporate Transparency Act requirements for BOI

Reporting, you only have 30 days to complete this report!

See our CTA article in last month's newsletter for more information.

**HAVE YOU
FILED YOUR BOI
REPORT YET?**

The Corporate Transparency Act, or CTA, is a new law that requires most existing and new corporate entities in the United States to file BOI Reports with the federal government regarding their beneficial owners. There are big penalties for ignoring this new reporting requirement, so be sure you are complying, if required.



For more details on this new law, read our [article in last month's newsletter](#).

[Book a meeting with us here](#) so we can help you get this done before the deadline!