

Nagel on Finances: You can run, but you cannot hide from taxes

BY ROGER NAGEL
February 18, 2022

During the course of my career, I have been amused by the popular notion that wealthy people cheat on their taxes. I have not found that to be the case.

It is hardly worth the effort.

Congress, Treasury and the IRS have yet again taken the initiative to close a reporting “loophole” that made it easy for income from certain commercial activity to go unreported and untaxed. Unfortunately, this loophole mostly affected entrepreneurs and small businesses, very few of which could be considered wealthy cheats.



Roger Nagel

Think of your classic start-up internet business, or the recent proliferation in the side hustle, maybe participants in work-from-home schemes. Rarely are these new business initiatives very profitable.

While I do admire the commercial drive and risks assumed by these new capitalists, often the time expended results in very low compensation per hour. That time might have been better spent elsewhere.

I am referring to the new rules for reporting credit card processing activity using form 1099K. The threshold for 2022 has been reduced from \$20,000 in sales and 200 annual transactions to \$600 regardless of the number of transactions processed.

If you sell anything on the internet and collect a payment using Square or some other credit card processing service, watch out. The credit card processing organization is under great pressure to report your sale to the IRS at year end.

While these rules mimic the old rules for regular 1099s, the 1099K rules are a little different and the impact might be significant.

Let's say you work at Intel and your side hustle generates two sales per month that average \$1,000 each or \$24,000 for the year, all paid by credit card. Because you want to grow your business to operate full time when you retire, you can afford to invest a little money now, building this business for your future.

When you pull together your tax data, you find that you spent \$30,000 building your business so you suffered a \$6,000 loss.

Should you accidentally forget to report that activity, it will be reported for you.

If you cannot satisfy the requirements for a bona fide profit motive, your business activity may be deemed a hobby loss. What you thought would be a \$6,000 loss to offset against your wages will now be fully taxed at \$24,000!

Knowing the Hobby Loss rules thoroughly and being organized in a business-like manner is the only way to defend yourself from such negative results. Seek good counsel to avoid losing sleep.

This advice applies even more so if you have been dabbling in electronic currency. My colleague Ryan Cooper's December article on this new and exciting industry was quite informative.

Yet, just this week, the IRS released Form 14457 to be used to disclose previously unreported gains from trading in virtual currency. This is a form to be used if a criminal proceeding is imminent, in hopes of receiving leniency.

Based on the buzz generated during the recent Super Bowl, the popularity of the new "get rich quick scheme" is sure to snag unexpected dabblers.

Don't let that be you and your friends.

It's not worth the effort.

(Roger Nagel, CPA/PFS, CMA, CGMA, is the managing director of Nagel CPAs, LLC – Accountants and Advisors, serving the middle Rio Grande Valley and beyond. Learn more at nagelcpa.us.)