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THE EMPLOYEE RETENTION TAX CREDIT --- IS IT FOR ME?

SARAH DAVIS, CPA, SENIOR MANAGER



*Sarah Davis, CPA,
Senior Manager*

- For 2020 qualifying employers can receive up to a \$5,000 credit per employee.
- For 2021 qualifying employers can receive up to a \$28,000 credit per employee.

Executive Summary –

Congress recently extended and enhanced the Employee Retention Tax Credit (ERTC) to help small business negatively impacted by Covid-19. The ERTC is a fully refundable payroll tax credit.

- For 2020 small employers who received the Paycheck Protection Program (PPP) funds are now allowed to also claim the ERTC. Employers qualify if they were fully or partially shut down by governmental order or if they had a greater than 50% drop in gross receipts for a quarter compared to the same quarter in 2019. The maximum wages allowed are \$10,000 per employee, for the year, with

a 50% credit on those wages up to \$5,000 per employee.

- For 2021, the ERTC is expanded to allow small employers to qualify with a greater than 20% drop in gross receipts (2021 Qtr. to 2019 Qtr.), \$10,000 of wages per quarter per employee can qualify and the credit on qualifying wages is increased to 70%. **At \$7,000 per employee, per quarter an employer potentially could receive \$28,000 per employee for 2021.**

The Employee Retention Tax Credit can be a game changer for your business, unfortunately it definitely has its complications. Ketel Thorstenson, LLP is ready to help you determine if you qualify, assist with wage calculations including segregating wages for ERTC from wages used in the PPP loan forgiveness and finally we can prepare the Forms necessary to receive the credit.

In short, if you qualify, the Employee Retention Tax Credit is potentially huge and Ketel Thorstenson, LLP can help you to take advantage.



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PROVISIONS IN BIDEN'S TAX PROPOSAL THAT MAY COST YOU MONEY

CARRIE CHRISTENSEN, CPA, MANAGER



*Carrie Christensen,
CPA, Manager*

President Biden's proposed tax plans contain many provisions that could affect the amount of income tax you pay in the near future. His plans contain provisions to increase taxes for wealthier Americans which will help fund infrastructure spending and proposed tax cuts for lower income Americans.

The following highlights from Biden's proposal may increase the amount of tax you owe:

Increase of top tax bracket

Currently, the top tax rate is 37%. Biden proposes to increase that to 39.6%. The 39.6% rate would apply to taxable income over \$509,300 for married filing joint filers, \$452,700 for single filers, \$481,000 for head of household filers, and \$254,650 for married filing separate filers beginning in tax year 2022.

Increase in long-term capital gains rate

Currently, long-term capital

gains and qualified dividends are taxed at a maximum rate of 20% (or 23.8% including the net investment income tax if applicable). Biden proposes to increase this to 39.6% (43.4% including the net investment income tax) for taxpayers with taxable income over \$1 million (\$500,000 for married filing separately). If adopted, the increased rate is expected to be retroactive to April 28, 2021. This increase will be particularly painful for large one-time capital gains from selling a business or piece of property. Making matters worse, often long-term gains are purely as a result of inflation, and not really economic income.

Expand self-employment taxes

Under current law, many loopholes exist for pass-through business owners to avoid paying self-employment taxes. Self-employment earnings are taxed at a rate of 12.4% for Social Security tax (limited to \$142,800 of earnings in 2021) and 2.9% for Medicare tax (unlimited), plus an additional 0.9% Medicare tax for high income taxpayers.

Limited partners in a partnership are statutorily exempt from paying self-employment taxes on their share of the partnership income. Some partners claim limited partner status rather than general partner to avoid paying self-employment taxes. Some LLC members avoid paying self-employment taxes by claiming the treatment of a limited partner. While S-corporation shareholders are required to pay themselves a fair wage

which is subject to employment taxes, their distributive share of the income is not subject to self-employment taxes.

Biden plans to impose self-employment taxes on limited partners, LLC members, and S-corporation owners who materially participate in their business to the extent the income exceeds \$400,000. This would be effective beginning in 2022.

Expand net investment income tax (NIIT)

Under current law, taxpayers with income over certain thresholds (\$200,000 for single and head of household and \$250,000 for joint filers) are subject to a 3.8% tax on net investment income. Net investment income consists of interest, dividends, rents, capital gains, and income from businesses in which the taxpayer does not materially participate.

The proposal is to make all pass-through business income (even if you actively participate) subject to the 3.8% NIIT for taxpayers with adjusted gross income (AGI) greater than \$400,000. If you are an owner in a pass-through business (such as a partnership, LLC, or S-corporation) and your AGI exceeds \$400,000, your business income from these sources would be subject to this additional tax.

Increase IRS enforcement efforts

Some experts estimate that the tax gap (the difference between the amount of tax due and the amount of tax paid) is as high

(Provisions in Biden's Tax Proposal That May Cost You Money continued on page 3)

(Provisions in Biden's Tax Proposal That May Cost You Money continued from page 2)

as \$1 trillion per year. Biden would like to give the IRS an additional \$80 billion over ten years to increase IRS enforcement actions. This includes increasing audits, updating outdated technology, and expanding financial reporting requirements for financial institutions. The risk of being audited is expected to increase for taxpayers with taxable income over \$400,000.

Limitation on deferred gains from Section 1031 like-kind exchanges

Currently, taxpayers owning real property such as land and buildings, either used in a trade or business or held for investment, can

exchange the property for another "like-kind" real property and enjoy the benefit of deferring taxable gain (assuming certain conditions are met). The proposal is to limit the amount of deferred gain up to an aggregate maximum of \$500,000 for single taxpayers and \$1 million for married filing joint taxpayers.

Making the limitation of excess business losses permanent

The 2017 federal tax reform imposed a limitation on the amount of losses derived from an active trade or business that a taxpayer can use to offset other income such as wages and investment income. The CARES Act repealed this limitation for tax years 2018

through 2020. The limitation goes back into effect for tax year 2021 and is set to expire after tax year 2026. In 2021, excess business losses greater than \$524,000 for married filing jointly and \$262,000 for all other taxpayers will be suspended and carried forward to the next year. Biden proposes to make this limitation permanent.

While these are all just proposed changes and have not yet been made into law, your advisors at Ketel Thorstenson want to make you aware of potential tax law changes that may affect you and your business. Please contact Ketel Thorstenson with any questions or concerns.

POSSIBLE ESTATE TAX CHANGES

KRISTAL HAMM, CPA, SENIOR ASSOCIATE



*Kristal Hamm,
CPA, Senior Associate*

President Biden proposed a new tax plan called the American Families Plan. It includes many provisions and tax consequences. Below outlines the provisions of the plan relating specifically to

estate returns. Be sure to catch Carrie Christensen's article covering the other provisions in the tax plan that may cost you money.

Currently when someone passes on, they do not have a taxable estate unless their estate is over \$11,700,000. In addition, the beneficiaries receive a step-up in basis, which means each beneficiary's cost basis in an asset is the fair market value at the date of death. For example, if the decedent owned a home that was purchased for \$500,000 and includes \$100,000 in improvements, then the basis is \$600,000 to the decedent. Once the decedent passed on, the home would receive a step-up in basis to current fair market value. Let's assume the house is now worth \$900,000. The beneficiary can

turn around and sell the house after inheriting for \$900,000 and not pay a single penny in tax.

The American Families Plan is going to change this. The plan now calls for all inherited property to be treated as a sale and the tax will be due upon the decedent's passing if the decedent has capital gains in excess of \$1 million (\$2 million per couple). There would also be a \$250,000 (\$500,000 per couple) exclusion of gain on personal residence. There would be no more step-up in basis, but the new basis would still be the fair market value of the asset because the beneficiary had to pay tax on the gain on the transfer or "sale" of the asset.

The farmers and ranchers are our biggest group of clients that this will affect, due to the land

(Possible Estate Tax Changes continued on page 4)

Possible Estate Tax Changes continued from page 3)

and assets they hold. The proposal does include an exemption for family-owned businesses. The proposal states that if the decedent was active in the business for five out of the last ten years and the beneficiary will be an active participant, then the tax will be "deferred." The reason the tax is deferred is because there will be no step-up in basis. That means, whatever the basis in the asset was with the decedent, that is the basis for the beneficiary. If the decedent was not active in the business five out of the last ten years, the business would be subject to the

same taxation as everyone else. Note that cash rent does not qualify as an active participant. What is not clear at this time is what happens if down the road the beneficiary is no longer active, is the tax due at that time or is there an "active" period that would be implemented for the exempted assets.

The new plan will treat every transfer of property and assets as a taxable event, a pseudo sale if you will. This will potentially cause a lot of problems for asset rich and cash poor families. This law would cause families to have to sell assets

to pay the tax due. At the proposed top tax bracket, all inherited assets have the potential to be taxed at 43.4%. At present, it is not known if or when the proposed tax bill will be passed. Income tax brackets are also unclear at this time. In addition, there may be changes to current gifting rules. There are a lot of "ifs" at this point, but the KTLLP Estate Team wanted to provide awareness. KTLLP can put together a plan that will best suit you, your family, and the livelihood of your business.

Don't Miss Out!

The Employee Retention Tax Credit can be a game changer for your business.

KTLLP can help...

- determine if you qualify
- with wage calculations
- segregate wages used in PPP loan forgiveness
- prepare the forms necessary

Call the KTLLP ERTC Team today! You might be surprised that your business is eligible!

ROTH 401K AND THE HIGH-INCOME EARNER---WHACKY THOUGHTS

PAUL THORSTENSON, CPA, ABV, CVA, PARTNER



*Paul Thorstenson,
CPA, ABV, CVA, Partner*

One of the most common questions posed to me as a tax professional is whether to choose the Roth option for a 401K contribution. As you all know, the Roth contribution is not deductible now, but it is also not taxable in retirement. The regular "traditional" 401K contribution tax treatment is simply opposite of the Roth.

Most of the time, the answer is very simple. You will be mathematically ahead with the regular deductible 401K contributions if you are in a higher tax bracket today than when you are in retirement. If you

are married, you reach the 32% bracket at \$326,600 of income and the maximum 37% bracket at \$622,050 of income. But wait. How in the world will you know the tax bracket when you retire--which could well be 30 years down the road? We all know tax laws constantly change. Also, your retirement income may be entirely unpredictable at this time.

So how do you make this decision?

If you google the "Roth vs. Regular" decision you will find a lot of interesting stuff. What you will not find is my frankly whacky observation of money withdrawn from 401K/IRAs in retirement years. Ha...just to be clear, my clients are not whacky, just my observation.

My whacky observation is that it is highly unlikely that the bulk of your traditional (non-Roth) retirement funds will be taxed in a higher bracket in retirement. Here's why:

- 1) Most retirees (who are the subject of this article) only take the minimum distributions, which now begin at age 72.
- 2) Most retirees die with most of their retirement funds fully intact. At that point, the funds might go to a charity which pays no tax on the distributions. Or commonly the funds are paid out to a number of children, who are usually in a low tax bracket.
- 3) It often takes a very large amount of wealth to earn over \$326,000 in retirement. If your net worth is less than \$10,000,000 in retirement, it is unlikely you will be in a higher bracket---especially in your 70s and early 80s before high RMDs might kick in.
- 4) In retirement, very wealthy people often invest in tax free municipal bonds, or other tax-advantaged investments ----like higher dividend common stocks or publicly traded partnerships.

In conclusion, a bird in the hand is worth two in the bush. Enjoy your tax savings now and spend it on something fun!

WHERE'S MY REFUND?

If you have not received your refund yet and want to check the status go to the following page on the IRS website. <https://www.irs.gov/refunds>. Note: The IRS has reported processing delays due to Covid-19.

ENHANCED CHILD TAX CREDIT

LINDA HORSLEY, SENIOR ASSOCIATE



*Linda Horsley,
Senior Associate*

President Biden's American Rescue Plan included a significant change to the Child Tax Credit for 2021. This change will impact both the timing of when you receive your 2021 child tax credits and the amount of these credits.

First, the credit will be raised from \$2,000 to \$3,000 for children between the ages of 6 and 17 and to \$3,600 for children under 6 for the 2021 tax year.

The credit is available to taxpayers with modified adjusted gross income (AGI) of:

- \$75,000 or less for singles,
- \$112,500 or less for heads of household, and
- \$150,000 or less for married couples filing a

joint return and qualified widows and widowers.

For modified adjusted gross income above these amounts, the Enhanced Child Tax Credit will be reduced (phased out) by \$50 for every extra \$1,000 in additional modified AGI.

Second, the Enhanced Child Tax Credit will be paid out monthly beginning on July 15, 2021. The payments will be direct deposited or sent via a paper check from the IRS on the following dates: July 15, August 13, September 15, October 15, November 15 & December 15. For children 5 and under a monthly payment of up to \$300 per child will be made and for children between the ages of 6 and 17 a monthly payment of up to \$250 per child will be made.

A qualified taxpayer will end up receiving half of the credit in 2021 and the remainder when they file their 2021 tax return in 2022. Unlike prior years, the credit is fully refundable in 2021—even if you pay no other tax. The advance payments of the 2021 Child Tax Credit will be based off your 2020 tax return. If the 2020 tax return has not been filed yet, the IRS will use the 2019 tax return.

If you have a new child in 2021, the IRS will be creating an online portal where you can update the

IRS with the information needed—including a social security number.

You will also be able to update your income, filing status, and direct deposit information via an online portal through the IRS website. By updating this information, you will ensure that you receive the correct amount of the credit. More details on the online Child Tax Credit Update Portal will be available soon. Please continue to check the IRS.gov website.

What if you do not want to receive the advance payments? The IRS online portal will allow you to opt out of these advance Child Tax Credit payments. You can then take the full Child Tax Credit on your 2021 Tax Return when you file it in 2022.

The one thing to keep in mind, this is an advance payment of the Child Tax Credit. By receiving the payments in July through December of 2021 you will reduce the amount of the Child Tax Credit on your tax return in 2021. This could create a situation where you might owe tax when you file your return.

Please feel free to reach out to your Ketel Thorstenson, LLP advisor with any questions or concerns.



Thankful for your business!
1936-2021

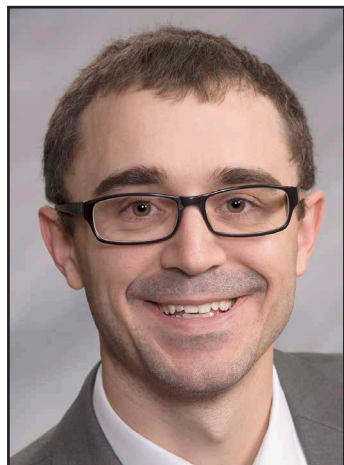


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INCREASED TAX SAVINGS WITH DEPENDENT CARE FSAS AND CHILD AND DEPENDENT CARE CREDIT

JESSE JANGULA, CPA, ASSOCIATE



*Jesse Jangula,
CPA, Associate*

Does your employer offer a dependent care flexible spending account? If you are already making pre-tax contributions, you might consider increasing your contributions to the new annual limits signed into law by the American Rescue Plan Act in March 2021.

2021 Annual Contribution Limits

- \$5,250 for single taxpayers (up from \$2,500)
- \$10,500 for married couples filing jointly (up from \$5,000)

Why is this beneficial?

Pre-tax contributions lower your taxable income reducing your Federal Income Tax. In addition, these contributions

also avoid the 7.65% Social Security and Medicare tax.

For example, a married filing joint couple in the 22% tax bracket, making max FSA contributions of \$10,500 would have a total tax savings of \$3,113 or 29.65% ($\$10,500 \times 22\% + 7.65\%$).

What if I am unable to use all of my 2020 & 2021 contributions?

Prior to the 2020 COVID pandemic, dependent care FSA contributions were typically “use it or lose it” in the year contributed. However, IRS Notice 2021-26 clarifies that an employer can modify their FSA plans to allow unused funds from 2020 to roll over into 2021, and 2021 funds into 2022.

What’s more unused amounts carried over from a prior year or available during an extended grace period won’t be taken into account in determining the annual contribution limit for the following year.

In addition to dependent care FSAs, the American Rescue Plan Act has modified the child and dependent care credit with the taxpayer in mind. Prior to 2021, the child and dependent care credit was most advantageous for the lower income taxpayer due

to the credit percentage quickly decreasing from a max 35% to 20% starting at an adjusted gross income (AGI) of \$15,000.

What’s new with the child and dependent care credit?

- Qualifying expenses increased to \$8,000 for one child (was \$3,000) and \$16,000 for two or more (was \$6,000)
- Maximum credit is now 50% (was 35%)
- Credit reduction now begins at an AGI of \$125,000!
- Credit is now refundable.

Dollar for dollar, this credit is huge. In a pre-COVID world, it was not hard to incur annual childcare expenses of \$8,000. For 2021, a single taxpayer or working couple with an AGI less than \$125,000 who spends \$8,000 in childcare expenses will receive a \$4,000 tax credit! In addition, now any amount of the credit above your tax liability is not lost; it’s refunded.

One thing to keep in mind is that dependent care FSA contributions cannot be used for the child and dependent care credit.

As with anything in life, planning is key. Speak with your tax professional at Ketel Thorstenson today to see which of these tax law changes could benefit you most.

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IMPORTANCE OF FINANCIAL STATEMENTS

JOEI TIEMAN, CPA, MANAGER



*Joie Tieman,
CPA, Manager*

Why are financial statements so important? Does it matter if the information used to create them is accurate or not? Ask your tax advisor. Ask your banker. Ask an investor. Accurate financial statements matter. Preparing financial statements with accurate information in a timely manner is a critical component to running a successful business.

The most common types of financial statements are the Balance Sheet, Income Statement, and Statement of Cash Flows. The Balance Sheet displays the financial position of the company at a specific point in time. It reports the assets owned and the liabilities owed as a figurative snapshot at a point in time. The difference between assets and liabilities is what you "own." What you own called "equity"---- also known as the owner's investment in the business.

The Income Statement reports the results of operations for a period of time. This is not a cash

flow statement. The best income statement is recorded on the accrual basis. For instance, revenues are recorded when earned, and not when cash is received. The Income Statement is the record of the operating performance of the business. The bottom line will report net income or net loss, which is revenue minus expenses. It is crucial the chart of accounts be set up correctly and amounts coded properly so the information flows to the appropriate revenue and expense categories.

The Statement of Cash Flow reports the change in cash during a period time. This report shows cash sources and uses, in addition to cash supply. This statement summarizes cash inflow and outflow that has already happened in order to provide the reader with the amount of cash that was made available over a period of time.

In order for financial statements to be useful, they must be prepared on a timely basis. The objective is to provide management with a tool or guide used for running successful operations. This needs to be on a consistent basis using accurate information. Make sure bank accounts as well as other balance sheet accounts are reconciled monthly to ensure all transactions are accounted in the proper periods. Issuing reports in a timely fashion can also help identify adverse trends which in turn, helps pinpoint issues and how the company compares to prior years.

Ratios are also helpful for management or whomever the audience is for quickly determining liquidity, profitability, and leverage

of the business. A few key ratios are: The Current Ratio is used to determine short-term assets which can be converted to cash to pay short-term liabilities. The Gross Profit Ratio is used to monitor what portion of sales can be applied to overhead and profit. And the Debt-to-Equity Ratio is used to measure financial leverage and the related risks.

Garbage in is garbage out. Make sure the appropriate information is being used to create financial statements. The end product is used by tax professionals to prepare the tax return and do tax planning, the bank when needing operating funds or loans for expansion, and investors for financial growth or selling opportunities. These all contribute to the many reasons that timely and accurate financial statements are so important to a business.



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COMPLETING FORM W4

HEATHER GRACE, ASSOCIATE



*Heather Grace,
Associate*

The IRS launched the new W4 form in January 2020 and with this new form there were some major revisions that took place. The main objective of the new form is to accurately withhold the correct amount of income taxes for the employee. Here is a simple step-by-step guide to assist you and your employees in making sure the form is complete.

The below steps are in correlation with the Form W4:

Step 1: Personal Information. Enter your name, address, Social

Security number and tax-filing status. The tax filing status choices are: Single or Married filing separately, Married filing jointly or qualifying widow(er), Head of household (employees should only check head of household if they are unmarried and pay more than half of the costs of keeping up a home for yourself and a qualifying individual).

Complete steps 2-4 ONLY if they apply.

Step 2: Multiple jobs or Spouse Works. If the employee has multiple jobs at one time or are married filing jointly and your spouse also works. The IRS provides an estimator tool on their website at www.irs.gov/W4App for the most accurate withholding for steps 2-4. The W4 form also has the multiple jobs worksheet on page 3 and this information would be entered in Step 4©.

Step 3: Claim Dependents. This is the section that we receive the most questions on. Allowances are no longer the factor in claiming dependents, it's now a calculation but only if your total income will be \$200,000 or less (\$400,000

or less if married filing jointly) then complete this section.

Multiply the number of qualifying children under age 17 by \$2,000.00.

Multiply the number of other dependents by \$500.00.

Total up the amounts and that dollar amount will be entered in step 3.

Step 4: (optional) Other adjustments. This section is for other income not from jobs, if you plan to claim deductions other than the standard deduction, or you would like extra withholding taken out of the paycheck.

Step 5: Sign and date the form. Employers will enter their name and address, first date of employment and employer identification number (EIN).

Some final items to keep in mind are status changes to employees, such as getting married, having a baby, or getting a divorce. These changes constitute an employee filling out a new Form W4 to keep their withholding information up to date.

Define YOUR Future

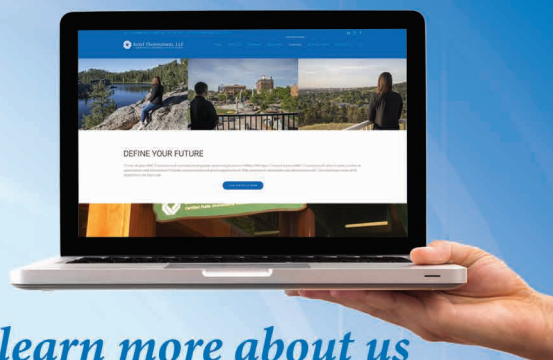
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FINANCIAL TIPS FOR YOUR SIDE HUSTLE

MARY HLEBECHUK, CPA, SENIOR ASSOCIATE



Mary Hlebechuk,
CPA, Senior Associate

In need of some extra cash? Consider starting a side hustle. Creating a side hustle is one of the most popular ways to bring in extra cash flow. A side hustle is defined as activities undertaken outside of one's main job to earn additional income. Common side hustles include food delivery services, ridesharing, or tutoring. Once your side hustle is up and running, you will need to know how this extra cash flow will affect your finances. Keeping track of your side hustle finances can be a large task. Here are some helpful tips to make the most sense out of your side hustle cash flow.

Open a Separate Bank Account

Opening a separate bank account allows you to keep your side hustle income and expenses separate from your personal income and spending. You don't want your side hustle to cost you more money than you make, having a separate bank account will allow for easy tracking.

Stay Up to Date on Bookkeeping

Now that you have a separate bank account, you can use the bank statements to create a financial picture of your side hustle. Using software such as QuickBooks or Excel to categorize your income and expenses, you can see where your money is coming from, and to what expenses you are allocating that money. It is recommended to do this monthly to have a clear picture of how your business is doing on a month-to-month basis.

Taxes

Keep in mind that along with extra cash flow, comes the need to pay some of that to Uncle Sam. That's right, you will need to pay taxes on the net income you make. The net income is calculated by starting with the income and deducting the expenses incurred for the side hustle during the year against this income. It is recommended that you save 20-30% of your net income for taxes due when you file your tax return or to pay your estimated tax payments throughout the year.

Estimated Tax Payments

Since your side hustle income doesn't have withholding deducted from it when you receive it like your paycheck does from your employer, you may be required to pay estimated tax payments. To avoid penalties, you are generally required to make estimated tax payments if (1) you expect to owe at least \$1,000 in tax for the current year after withholdings and refundable credits are subtracted and (2) you expect your withholding and refundable credits to be less than the smaller

of 90% of the tax shown on your current year tax return or 100% tax shown on your prior year return. There are some special exceptions to these rules in some cases.

Savings

Now that you are keeping track of your side hustle finances and allocating some for taxes, what should you do with the remaining cash?! Allocate the remaining amount so you don't find yourself spending it on items you don't need. Saving for retirement, paying down debt, creating an emergency fund, or planning a vacation are all great ways to allocate your additional cash flow from your side hustle.

Creating a successful side hustle takes hard work and keeping track of your finances can be overwhelming and timing consuming. Do not be afraid to reach out to your local CPA for help. Your trusted friends at Ketel Thorstenson are here to assist you in reaching your financial goals!



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KT News

We can't do what we do without the help of a GREAT TEAM.

— NEW HIRES —



Luke Bates
Associate,
Audit Department



Tucker Lundie
Associate,
Accounting Services
Department



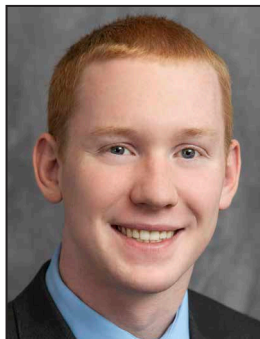
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— NEW — CERTIFICATIONS



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— PASSED EXAMS — CPA Exam



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Ketel Thorstenson, LLP*



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