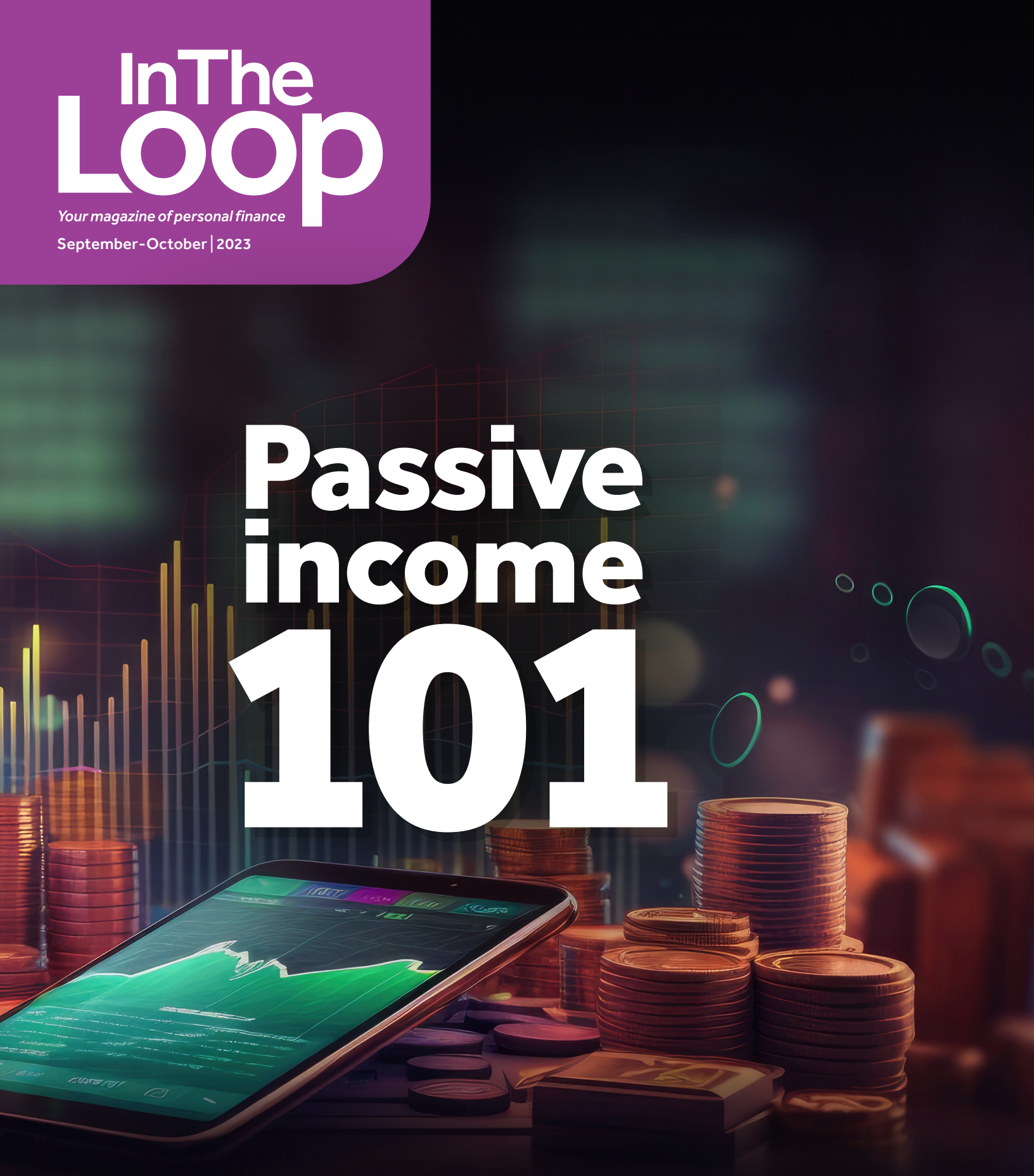
In The Loop

Your magazine of personal finance

September-October | 2023



Passive income 101

The rules of digital charity | Setting your salary
Learn to earn | School's in session | Baffling brain benders

The lifelong endeavor of learning

In today's fast-paced world, the only constant is change. So, if we're to succeed in life and business, the value of continuous learning can't be overstated. The truth is that learning is a lifelong endeavor, and those who adapt and acquire new knowledge will thrive.

In this issue, you'll learn how passive income can help you build residual wealth. We'll dive into the basics, the most common forms of passive income and how to get started. We also share strategies that can help you gain financial freedom while you sleep.

As the passive income rolls in, you may choose to give back in the form of donations to those in need. But before you try to write off these charitable contributions on your taxes, you need to know the ins and outs of digital charity. Uncover how to maximize your impact while ensuring your donations align with IRS guidelines.

If you're a small business owner, determining your own compensation can be a perplexing task. Striking the right balance between reasonable compensation and keeping your business afloat can be daunting. Join us as we talk through the art of setting your salary and provide practical tips that ensure you're keeping the IRS happy.

Join us as we talk through the art of setting your salary and provide practical tips that ensure you're keeping the IRS happy.

Expanding your skill set can open doors for new business opportunities. From online courses to finding a mentor, we've got you covered with five practical and actionable tips that can help you reach new heights.

When you're ready to take a break from the lifelong endeavor of learning, check out these vibrant college towns that offer more than just academics. From foodie havens to cultural gems, you'll be tempted to plan a weekend getaway and experience all that these unique towns have to offer.

Challenge your mind with our carefully curated collection of 20 mind-boggling brain teasers. From tricky riddles to clever wordplay, these questions are sure to challenge and delight. As these brain teasers keep you on your toes, remember to embrace the mindset of lifelong learning and continue your journey toward growth and success.

Your trusted advisors

contents

September-October | 2023

Features

4 | Passive income 101
We have everything you need to know about passive income, including ideas on how to build your own.

6 | The rules of digital charity
Discover why GoFundMe and other online charitable contributions are not really tax write-offs.

8 | Setting your salary
Learn how to find the right balance in your business owner salary to keep your wallet (and the IRS) content.

10 | Learn to earn
Here are five ways to expand your skill set that can lead to new business opportunities.

Departments

2 | From the firm: The lifelong endeavor of learning
Uncover why learning is a lifelong endeavor and paramount to your success—in and out of the office.

12 | Life and living: School's in session: What's cooking off-campus in these college towns?
College towns aren't just for academics. We've rounded up the top 10 cities for a quick weekend getaway.

14 | Mind flex: Baffling brain benders
Unleash your cognitive prowess and embrace the challenge of these brain teasers.









In The Loop is published by Rootworks LLC, 1516 S. Walnut St., Bloomington, IN 47401 (rootworks.com) and distributed as a courtesy by professional services firms nationwide.

This publication is intended to provide general information only and is not to be construed as providing financial, legal, or other professional advice or services. The information and points of view presented may not be appropriate for your specific financial position or circumstances. Contact a financial or legal professional before making any decisions or plans regarding your financial management.

Passive income 101

Passive income may appear to be the new #trend these days, but you may be surprised to learn that passive income earners have been around for quite some time. However, only 20% of American households earn passive income, and of that 20%, the median amount earned is about $4,200.[1]

If you can create additional streams of income, you can help pay down debt or save for vacation—or you can begin to create a nice nest egg for retirement (or, in some cases, even become a millionaire!). So, let's talk about what passive income is, the most common forms and how you could turn a side hustle into a passive income stream.

What is passive income?

Passive income is the money you earn regularly with minimal effort or involvement once you've completed the initial setup. It's created through a variety of sources that continue to generate revenue over time. It's used to help supplement your current active income (i.e., your full-time job) but doesn't require your full attention. You can even earn passive income in your sleep, which, let's face it, you probably can't do in your current role.

Passive income has several benefits, including:

- Financial freedom
- Diversification of income sources
- Stability and scalability
- Wealth accumulation
- Generational wealth

While passive income does take an initial commitment of time, effort and money to get set up, it can be worthwhile because it doesn't require your ongoing time and active participation. And it can lead to financial independence that allows you to supplement your current income.

Common forms of passive income

Many individuals can take advantage of several common forms of income, from rental properties and dividends to digital products or affiliate marketing. Here are seven of the most popular types of passive income, keeping in mind that each one takes time, effort and money to pursue in the beginning.

1. Rental income

Owning and renting out properties, like condos, homes or commercial spaces, can provide additional income through monthly rental payments. Short-term rentals such as Airbnb or Vrbo® are also good options, especially during peak seasons.

2. Investments

Think stocks, bonds and mutual funds. Investing in stocks that pay dividends allows you to earn a portion of the company's profits as regular payments. Dividend income can provide a steady stream of passive income, especially from established companies.

[1] "Cities Whose Residents Make the Most Passive Income," Chamber of Commerce, Accessed June 8, 2023. https://www.chamberofcommerce.org/cities-whose-residents-make-the-most-passive-income/#detailed-findings-methodology

3. Interest income

If you're able to lend money to individuals, businesses or institutions, you can earn interest on loans as passive income. This can be done through peer-to-peer lending platforms or by investing in bonds, certificates of deposit (CDs) or Treasury securities.

4. Royalties

If you've penned the next bestselling novel or the newest radio hit, you can earn passive income through royalties. This includes anything that falls under intellectual property rights you own, such as copyrights for books, music or artwork, or even patents for inventions. You earn royalty payments when others use or license your intellectual property.

5. Affiliate marketing

Building a website, blog or social media presence and promoting products or services through affiliate links can generate passive income. You can earn a commission when someone makes a purchase through your affiliate link.

6. Digital products

Creating and selling digital products, like eBooks, online courses, templates, software or music, can provide passive income. Once you've created the product, it can be sold repeatedly without any additional effort on your part.

7. Automated business

Establishing online businesses or systems that can run automatically (or with minimal effort) can generate passive income. This includes drop-shipping, print-on-demand, software as a service (SaaS) businesses or membership websites.

Turning active income into passive income

Turning active income into passive income is all about investing your money—and time—wisely. Rather than spending every penny of your paycheck, think about how you can invest any disposable income for future gains.

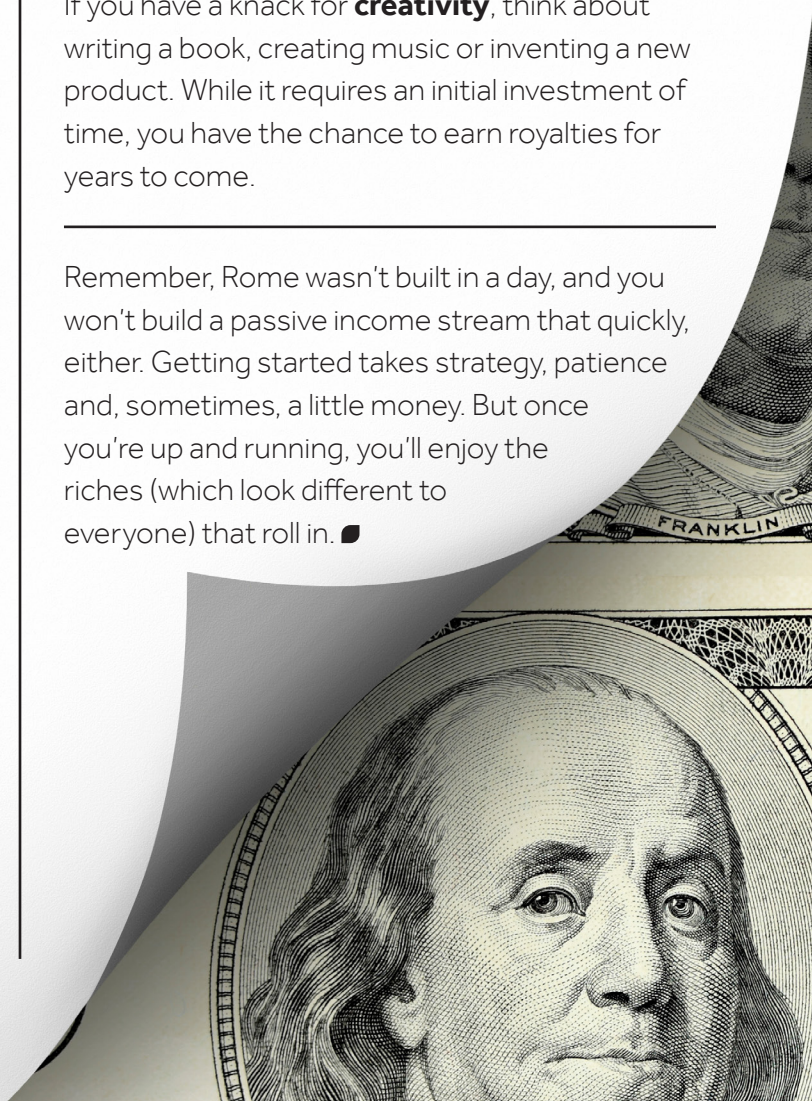
Investing in the **stock market** is a popular route. Start by setting aside a portion of your paycheck to invest in a diversified portfolio. If you're unsure about picking the right stocks, consider using an app that will do the investing for you.

If you're leaning toward **real estate**, consider investing in real estate investment trusts (REITs). This allows you to invest in real estate without owning actual property. If you want to go the more traditional route, rental properties are a good way to go, but it will require more time and management.

For **online enthusiasts**, consider starting a blog, a YouTube channel or an e-commerce business. Keep in mind that it will take some time to create a substantial following, but with patience and persistence, you can begin to take on paid and sponsored advertising and watch the money roll in.

If you have a knack for **creativity**, think about writing a book, creating music or inventing a new product. While it requires an initial investment of time, you have the chance to earn royalties for years to come.

Remember, Rome wasn't built in a day, and you won't build a passive income stream that quickly, either. Getting started takes strategy, patience and, sometimes, a little money. But once you're up and running, you'll enjoy the riches (which look different to everyone) that roll in.





The rules of digital charity

The rise of online fundraising has made it easy for us to contribute to the causes we care about. And not only do we get to give to those in need, but we can also count our donations as tax write-offs, right? Well, not so fast. Contrary to popular belief, not all online charitable contributions can be claimed as tax write-offs. So, how do you know what's tax deductible and what isn't? Well, we're here to help you figure that out.

The rise of digital charity

With the internet boom came the option for charities to go digital. And that's made it easier than ever to support charitable causes. Crowdfunding platforms like GoFundMe, GoGetFunding and FundRazr provide an avenue for individuals and small businesses to create campaigns, share their stories and receive financial assistance. However, not all digital contributions are tax-deductible.

So, how do I know if something is tax-deductible?

While charitable giving is noble, small businesses and individuals must navigate the terrain of tax laws to determine what is eligible as a tax write-off. For the most part, for a donation to be tax-deductible, it must be made to a qualified 501(c)(3) nonprofit organization or a registered charity. You have to ask yourself: Does the person or organization I'm donating to have tax-exempt status? If the answer is no, your donation isn't tax-deductible.

The tax-deductibility myth of GoFundMe

If you're thinking, "Yes! I made a donation to this cause. Now I can use the tax write-off," don't get too excited—yet. While donating to any cause is something to feel good about (and a wonderful thing to do!), if the individual or organization receiving your donation doesn't have tax-exempt status, your contribution isn't tax-deductible. Most GoFundMe campaigns are created by people who don't have that status. Don't let that deter you from giving, though.

How do I find charitable organizations?

To make sure your contributions are tax-deductible, focus on organizations that are registered as a 501(c)(3) nonprofit. Nonprofit organizations don't pass along earnings to private shareholders or individuals. They've gone through a stringent vetting process with the IRS and have been approved to receive tax-deductible donations. Before you donate, verify the organization's tax-exempt status by checking the Tax Exempt Organization Search on the IRS website.[1]

The importance of reading the fine print

Not all donations to a qualified nonprofit organization are equal (or tax-deductible). Some fundraising campaigns may offer rewards, like merchandise or services, in exchange for donations. When this happens, only the amount that exceeds the fair market value of the reward is an eligible tax write-off. Make sure you understand the details of the campaign so you know how much of your donation can be tax-deductible.

Save those receipts

When tax time rolls around and you're ready to write off your donations, be sure you have the receipts to back up those claims. Keep receipts, bank statements or acknowledgment letters from the organizations you're donating to, so you have the proof for tax purposes. If you happen to get audited and you don't have the proper documentation to use as evidence, your tax write-offs can be disallowed.

Keep receipts, bank statements or acknowledgment letters from the organizations you're donating to, so you have the proof for tax purposes.

When in doubt, seek help

Trying to navigate the maze of tax laws can be overwhelming. If you have questions or uncertainties about tax-deductible contributions or what can be written off, talk to a tax professional. They'll provide guidance tailored to your specific situation and can make sure you have the information you need to continue making contributions to your favorite causes or charities.

Giving is a joyous act

The rise of digital charity has opened many new avenues for charitable giving, but it's important to understand the rules of the game. If you want the tax write-off, be sure you direct your support to registered 501(c)(3) nonprofits—and read the fine print. Whatever cause you decide to support, remember that any contribution makes a difference.

[1] "Search for Tax Exempt Organization," IRS, May 19, 2023. https://www.irs.gov/charities-non-profits/search-for-tax-exempt-organizations



Setting your $alary

Starting a business can be quite a roller coaster ride of adventure. You know, the kind of adventure that includes dreams, sweat...and sometimes, tears. But one question that can bring the ride to a screeching halt is, **"How much should I pay myself?"**

Figuring out reasonable compensation isn't just finding the balance between your personal needs and the financial health of your business. It's also important for keeping the IRS happy.

Reasonable compensation defined

The IRS defines reasonable compensation as "the value that would ordinarily be paid for like services by like enterprises under like circumstances."[1] Basically, you need to do your research to ensure you're paying yourself the same as other similar businesses. If the IRS comes knocking, the onus is on you to ensure your compensation is reasonable.

If your business qualifies as an S corporation, reasonable compensation works a little differently. The IRS says, "S corporations must pay reasonable compensation to a shareholder-employee in return for services that the employee provides to the corporation before non-wage distributions may be made to the shareholder-employee."[2]

You can potentially save on employment taxes if owners take a lower salary and receive the remainder of their income as dividends. However, if the IRS deems your salary as reasonably low compared to the services you provide, they could reclassify your dividends as salary. And that means you could end up paying more in back taxes, penalties and interest.

How to determine reasonable compensation

To make sure your paychecks are in line with IRS guidelines, you have to consider several factors that the IRS outlines.[3] These will help you determine what counts as reasonable compensation and can include:

Your role and responsibilities

Are you the CEO overseeing everything, or do you have a more specific role? The more complex your responsibilities, the higher your compensation should reasonably be.

Your time and effort

Consider the number of hours you work, the types of tasks you take on and your level of dedication. Your compensation should reflect a reasonable reward for the time and effort you put into your business.

Your experience and qualifications

Take your skills and industry experience into consideration. Your knowledge, skills and qualifications provide value to your business.

The nature of your business

Your industry and market play heavily into reasonable compensation. Generally, a tech startup owner earns more than small retail shop owners due to the nature and complexity of the business.

Comparisons with salaries paid in similar companies

Research websites like Glassdoor, Indeed or PayScale to investigate what similar businesses in your area or industry pay for comparable roles. While it's important to pay yourself a reasonable wage, you don't want to overburden your business financially. Consider temporarily taking a lesser salary when starting out or going through a rough patch.

Seek professional advice

As a small business owner, determining what salary to take and leaving profits for your business can be a balancing act. And with the complexities of IRS tax laws, it can seem daunting. Before the IRS comes knocking, spend some time with your tax professional or accountant to help guide you to a reasonable—and IRS-approved—compensation.

[1] "Exempt Organization Annual Reporting Requirements: Meaning of 'Reasonable' Compensation," IRS, June 7, 2023. https://bit.ly/irsrc

[2] "S Corporation Compensation and Medical Insurance Issues," IRS, June 26, 2023. https://bit.ly/irsscorprc

[3] "Publication 535, Business Expenses," IRS, February 13, 2023. https://bit.ly/irspub535



1 Embrace continuous learning

Imagine yourself, young Jedi, as a student of the Force. You're hungry for knowledge and always seeking new wisdom. Harness your growth mindset and stay attuned to the latest industry trends by seeking opportunities to learn. Take advantage of online classes through sites such as LinkedIn Learning, Coursera or MasterClass, or attend workshops or seminars to expand your knowledge and take your skills to the next level. If you have an interest in learning a new skill, speak with your employer to see if they can offer tuition reimbursement.

The world is rapidly changing, and technology is advancing. Continuous learning fuels personal and professional growth, and it helps you adapt and stay relevant within your field of expertise. When you use the Force to embrace new ideas, technologies and skills, you continue to open your world—both personally and professionally—to numerous opportunities.

2 Cultivate soft skills

Remember, young Jedi, it's not just about lightsaber skills—your soft skills matter, too. These require patience, practice and the willingness to step outside your comfort zone to master. Soft skills require developing self-awareness so you can understand your strengths and weaknesses. Enhance your communication skills by becoming an active listener. This requires listening without interrupting, asking clarifying questions and paraphrasing what you've heard to ensure understanding.

Soft skills also include developing emotional intelligence so you can better understand—and manage—your emotions, giving you the power to empathize with others. Increase your problem-solving abilities by being an active collaborator within your team. Keep an open mind when it comes to diverse opinions and perspectives that may not match yours. Mastering soft skills will set you apart and can present new possibilities for adventure.

3 Volunteer your time

Every Jedi knight needs an ally. Seek out volunteer opportunities within your industry or community. Use the Force to embrace a path of service, not only to give back but to gain invaluable experience and network with like-minded individuals. When you collaborate with others on projects outside the workplace, you give yourself the opportunity to learn from other perspectives and gain a new understanding of the world around you.

When volunteering, you gain hands-on experience that complements your existing skills. It allows you to explore new roles and industries that could lead to future business opportunities, partnerships or even mentorship connections.

4 Harness powerful technologies

While you may not have C-3PO or R2-D2 as a sidekick (yet), you can still use the Force to master new technologies. Since they're evolving at a rapid pace, staying relevant on the technologies used in your profession or industry helps keep you a step ahead of other Jedi knights. Explore tools that automate relevant tasks, like project management tools, email marketing automation or customer relationship management (CRM) systems.

Stay cybersecurity-savvy and be aware of best practices to protect yourself, your company and your customers' data from potential threats. Consider learning how to use tools that are good at analyzing data. Data insights can tell quite a story, and you could be the storyteller. Last, spend some time getting comfortable with artificial intelligence (AI). The more you know, the more power you have. And that power can open new doors in your career.

5 Seek guidance

Just as Luke Skywalker sought the wisdom of Yoda, seeking guidance from your own Jedi Masters is crucial in your journey to expand your skills. Ask for feedback from your coworkers, customers, managers and any mentors who can help provide guidance. They can share the good and the less good, and help you improve in any areas that may be lacking. Practice active listening and use constructive criticism to light the fire of skill improvement—and keep it burning.

May the Force be with you

By tapping into the power of the Force, you can unleash a universe full of business opportunities. Embrace the growth with the spirit of a true Jedi, and you can conquer the [business] galaxy.

—SCHOOL'S IN— SESSION



WHAT'S COOKING OFF-CAMPUS IN THESE COLLEGE TOWNS?

Whether you're a college football fanatic, into the arts and music scene, or looking for a new weekend getaway, these college towns have much more to offer than academics. Plan an overnight visit or spend a weekend in any of these places and immerse yourself in the culture, hospitality and charm of America's college towns.

Cambridge, Massachusetts
cambridgeusa.org

Situated across the Charles River from Boston, Cambridge is a town of both academic brilliance and historical significance. It's not only home to renowned institutions like MIT and Harvard University, but it's full of world-class museums and delectable dining. Take a stroll through Harvard Square and Harvard Yard, explore the graffiti art of Modica Way, or cycle down the Charles River Bike Path for scenic university and water views.

Charlottesville, Virginia
visitcharlottesville.org

Charlottesville boasts the University of Virginia, founded by Thomas Jefferson. It's also a city that lives and breathes history, natural beauty and academic excellence. Pay a visit to Jefferson's Monticello plantation, roam the charming downtown pedestrian mall and imbibe Virginia's premier wines. Hike local trails to view the gorgeous scenery or catch a classic movie at the historic Paramount Theater.

Boulder, Colorado
bouldercoloradousa.com

Nestled in the Rocky Mountains, Boulder—home to the University of Colorado—welcomes both academics and thrill-seeking adventurers. Take in the scenic backdrop of the Flatirons, check out Old Main, tour the Museum of Boulder, hike (or bike) along numerous scenic trails and mosey down Pearl Street, sipping a coffee or tasting a local microbrew.

Madison, Wisconsin
visitmadison.com

The lively city of Madison constantly buzzes with breweries, trendy restaurants and a thriving art scene. While Madison may be home to the University of Wisconsin, it's not just a city for students. Participate in a log rolling contest, enjoy the local ice cream shop at the Memorial Union Terrace, take in a concert on Capitol Square, sail through five different lakes, and grab a basket of Wisconsin's best cuisine—cheese curds.

Oxford, Mississippi
visitoxfordms.com

Oxford is steeped in Southern charm, literary brilliance and rich history. With the University of Mississippi (Ole Miss) at its heart, visitors can explore the historic square, indulge in Southern cuisine, view William Faulkner's antebellum home (Rowan Oak), explore the world's most extensive collection of blues records at the Blues Archive and, if you're in town during football season, experience the finest in Southern tailgating at The Grove.

Berkeley, California
visitberkeley.com

With the San Francisco Bay as its backdrop, Berkeley attracts a melting pot of cultural diversity and ideas and is home to the University of California, Berkeley. Letting your imagination run free is highly encouraged. Explore the Berkeley Art Museum, take a stroll down Telegraph Avenue and satisfy your inner foodie with a wide range of eclectic eateries, all within walking distance of the university.

Ann Arbor, Michigan
annarbor.org

If you're ready to experience gridiron action and brilliant minds, Ann Arbor is the place to be. It's the setting that includes the University of Michigan, where spectators can take in a Wolverines football game at the iconic "Big House" in the fall. Outside of athletics and academics, visitors can explore the active downtown scene, discover new and old at the many museums scattered around the university or uncover your favorite new-to-you book at one of over 30 independent bookstores.

Burlington, Vermont
burlingtonvt.gov/visitors

Ensconced by the shores of stunning Lake Champlain, Burlington is a blend of beauty and farm-fresh goodness. The University of Vermont sets the stage for adventure with its proximity to the lively Church Street Marketplace. Grab a ride on a ferry across Lake Champlain, create your own adventure on the Burlington Bike Path and savor the flavors of farm-to-table cuisine.

Ithaca, NY
visitithaca.com

Be amazed by the serene beauty of the jaw-dropping gorges and cascading waterfalls of Ithaca. This charming college town—home to Cornell University and Ithaca College—adds a little Ivy League charm to its picturesque landscapes. Walk through the bustling Ithaca Farmers Market on the weekends, experience a scale model of the solar system through the Sagan Planet Walk or sip your way through specialty wines at Ports of New York.

Athens, GA
visitathensga.com

Located 60 miles northeast of Atlanta, the college town of Athens is a cultural hotspot full of creativity, musicality and ever-present Southern hospitality. Home to the University of Georgia, a vibrant downtown scene sits across the street from the north campus. Attend a football game "Between the Hedges," take in a concert at the storied Georgia Theater, grab a picture with the bulldog statues scattered throughout the town or enjoy a local brew.



Baffling brain benders

Prepare to awaken your inner puzzle master as you dive into the captivating world of brain teasers. With synapses firing and neurons sparking, these clever conundrums will put your wit to the ultimate test. Get ready for a whirlwind of laughter, "aha" moments and mind-bending challenges that will leave you craving more.

1. I'm tall when I'm young and short when I'm old. What am I?

2. What word in the English language is always spelled incorrectly?

3. How much dirt is in a hole that measures two feet by three feet by four feet?

4. What word looks the same upside down and backward?

5. What are two things you can't eat for dinner?

6. What's full of holes but still holds water?

7. What is as big as you are and yet doesn't weigh anything?

8. How many of each species did Moses take on the ark with him?

9. Before Mount Everest was discovered, what was the highest mountain in the world?

10. What can you hold without ever touching it?

11. What can travel around the world by staying in a corner?

12. The more it dries, the wetter it gets. What is it?

13. This belongs to you, but everyone uses it. What is it?

14. What is so fragile that saying its name breaks it?

15. Imagine you're in a room that's filling with water. There are no windows or doors. How do you get out?

16. What comes once in a minute, twice in a moment, but never in a thousand years?

17. You are in a room with three monkeys. One monkey has a banana, one has a stick and one has nothing. Who's the smartest primate?

18. What five-letter word becomes shorter when you add two letters to it?

19. What can you hear but not touch or see and yet control?

20. In a year, there are 12 months. Seven months have 31 days. How many months have 28 days?

Answers

1. A candle 2. Incorrectly 3. None; there is no dirt in a hole 4. SWIMS 5. Breakfast and lunch 6. A sponge 7. Your shadow 8. None; Moses wasn't on the ark, Noah was 9. Mount Everest was the tallest mountain before it was discovered 10. Your breath 11. A stamp 12. A towel 13. Your name 14. Silence 15. Stop imagining 16. The letter "m" 17. You 18. Short 19. Your voice 20. All of them



A modern firm for today's clients

We offer innovative, collaborative accounting and advisory services powered by our advanced online platform—because we know that's how today's clients want to work.

Experience the difference of working with a modern firm.

Visit us online today!