Spring & Co.

CERTIFIED PUBLIC ACCOUNTANTS

Tax & Business Alert

APRIL 2026

WHAT TO KNOW IF YOU RECEIVE AN IRS NOTICE

Notices from the IRS are more common than you may realize. Each year, the IRS mails millions of letters to clarify information, confirm changes or request additional documentation. Receiving a notice may seem intimidating, but most notices can be addressed quickly with the right information and guidance.

5 COMMON IRS NOTICES EXPLAINED

Each IRS notice includes a reference number, such as CP49 or CP14. It identifies the issue and helps determine the appropriate response. Below is an overview of the most common types of notices and what to do if one arrives in your mailbox.

1. CP12 (including CP12, CP12E, CP12F, CP12G, CP12N and CP12U), refund adjustment. A CP12 is sent when the IRS corrects a math error or similar issue on your tax return. The correction may increase or decrease your expected refund. If you agree with the change, no response is required. If you disagree, call the IRS at the toll-free number shown on the notice by the date indicated.

2. CP14, balance due. This notice informs you that you owe taxes. Address the notice promptly. You can pay in full, explore installment options or seek assistance if you believe the notice is incorrect. Ignoring it can result in interest charges, penalties and collection actions.

3. CP49, refund applied to a debt. This notice explains that your refund was used to pay all or part of an outstanding tax liability. Review how the refund was applied. Disputes are generally handled with the

agency that received the funds, not the IRS. On a joint return, a spouse who's not responsible for the debt may be able to recover his or her share of the refund by filing Form 8379, "Injured Spouse Allocation."

4. CP2000 series, proposed changes to your return. This notice is issued when the IRS compares your tax return to information reported by third parties, such as employers or financial institutions, and finds a mismatch. It isn't a bill; it's a proposal to adjust your return. Read the notice carefully and respond by the deadline listed. Follow the instructions, include any required documentation and note whether you agree or disagree. If no response is received, additional notices or a bill may follow.

5. Letter 4883C, identity verification. When the IRS suspects possible identity theft, it may pause processing your return until your identity is confirmed. Call the

Taxpayer Protection Program hotline as directed in the letter. Have the tax return referenced in the letter, a prior-year return (if available), and supporting documents, such as Form W-2, Form 1099 and Schedule C, ready. If you *didn't* file the return listed in the notice, contact the IRS immediately, because this may indicate identity theft.

Speaking of fraud, remember that the IRS will never email, text or call demanding payment. Legitimate notices always come by mail.

HOW WE CAN HELP

IRS notices can be confusing, especially when calculations or supporting documents are involved. If you receive a notice, we can review it, help confirm whether it's accurate, explain your options and communicate with the IRS on your behalf. Contact us for guidance. ■

THE IRS CRITERIA FOR DISTINGUISHING HOBBIES FROM BUSINESSES

Turning a favorite pastime into income can be rewarding, but it raises an important tax question: Is the activity a hobby or a business? The answer matters because different tax rules apply to each.

All income must be reported on your tax return, regardless of whether it's from a hobby or a business. But related expenses (and losses) are deductible *only* if the activity is a business.

WHAT THE IRS LOOKS AT

The IRS distinguishes a hobby from a business based on several factors. It weighs all the facts and circumstances, and no single factor is more important than another.

One factor the IRS considers is whether you conduct the activity in a businesslike manner. This includes maintaining complete and accurate records, tracking income and expenses and taking steps to improve operations. The time and effort you devote is important — especially when they demonstrate an attempt to make the activity profitable rather than purely recreational.

Your financial situation is also considered. If you rely on the activity's income to support yourself, the activity is more likely to be viewed as a business. If other earnings primarily fund the activity, it may be treated as a hobby. Personal motives, such as pursuing the activity mainly for enjoyment or relaxation, can weigh against business classification.

Profit history and future potential are also key. The IRS considers whether losses you've experienced are typical for a start-up (assuming you began the activity relatively recently) or caused by factors outside your control. If so, the IRS may view your activity as a business. Experience and success in similar activities can further support business status. Additionally, the expectation of future profit from the appreciation of assets used in the activity can indicate a business motive.

TAX TREATMENT OF RELATED EXPENSES

Historically, taxpayers with hobby income could generally deduct certain related expenses as miscellaneous itemized deductions, subject to a 2% adjusted gross income (AGI) floor. The Tax Cuts and Jobs Act suspended these deductions for tax years 2018 through 2025. The One Big Beautiful Bill Act, signed into law in July of 2025, made that suspension permanent. This means that if the activity is a *hobby*, you can't deduct expenses associated with it. However, you must still report all income from your hobby.

If the activity is considered a *business*, you *can* deduct related expenses. If the business activity results in a loss, you can deduct the loss from your other income in the same tax year, subject to various limits.

SEEK PROFESSIONAL GUIDANCE

The line between a hobby and a business isn't always clear. If you earn income from a side activity — or are considering turning a passion into a profitable venture — contact us for guidance. We can help you evaluate your situation and understand the tax implications. ■

COMMON GROWTH MISTAKES SMALL BUSINESSES MAKE

A recent survey found that 45% of small businesses reported growth, but 78% wanted to grow. This January 2026 data from Intuit QuickBooks Small Business Insights suggests that many small businesses are struggling to achieve their expansion goals. Small businesses usually don't have extra cash, people or time to absorb mistakes. One wrong move can strain cash flow, overwhelm staff or stall momentum. The good news? Many growth missteps are predictable and preventable.

GROWING TOO FAST WITHOUT A PLAN

Growth is often viewed as the ultimate goal. More revenue, more customers and expanded products and/or services can signal success. But growth can easily become unsustainable.

One of the most common mistakes is expanding too quickly without a clear operational plan. A sudden increase in customers or projects can overwhelm staff, stress systems and weaken service quality. Before scaling, evaluate capacity, staffing needs and process efficiency. Phased growth, supported by documented procedures, helps reduce disruption and protect profitability.

OVERLOOKING CASH FLOW

Cash flow mismanagement is another common issue. The Small Business Insights survey found that 45% of small businesses reported cash flow problems.

Revenue growth doesn't automatically translate into financial stability. Higher sales often lead to higher expenses, including payroll, software, inventory and marketing. Without careful forecasting, you could find your business short on working capital despite strong top-line performance. Regularly monitoring cash flow and building reserves before major investments can help avoid financial stress.

STAFFING AND MANAGEMENT STUMBLES

Hiring decisions are critical to sustainable growth. Bringing on employees without clearly defined roles can create confusion and unnecessary costs. Conversely, delaying hires too long can lead to burnout and reduced productivity. Thoughtful workforce planning helps ensure that new team members contribute to measurable business outcomes.

Additionally, as your business grows, your leadership style should evolve. Owners who try to control every decision often become bottlenecks. Delegating responsibilities and empowering staff frees you to focus on strategy rather than daily tasks.

EXPAND WITH CONFIDENCE

Growth is about building a business that can generate more revenue without sacrificing stability, service or financial health. If you need assistance, we're here. ■

TAX CALENDAR

April 15

- Individuals must file (or extend) their 2025 personal returns and pay any tax due.
- Individuals, trusts and calendar-year corporations must pay first-quarter 2026 estimated taxes.
- Individuals must file a 2025 gift tax return or file for an extension and pay any gift tax due.
- Calendar-year trusts and estates must file 2025 returns or file for an extension.
- Calendar-year C corporations must file a 2025 income tax return or file for an extension and pay any tax due.
- Individuals must make contributions to IRAs for 2025. SEP and profit-sharing plan contributions are also due if the return isn't extended.
- Individuals must file FinCEN Form 114 ("Report of Foreign Bank and Financial Accounts") if required, but an automatic extension to October 15 applies.

April 30

Employers must file Form 941 for the first quarter (May 11 if all taxes are deposited in full and on time). Also, employers must deposit FUTA taxes owed through March if the liability is more than $500.

May 15

Calendar-year exempt organizations must file (or extend) their 2025 returns (Form 990 series).

June 15

Second-quarter 2026 estimated tax payments are due for individuals, calendar-year corporations, estates and trusts.

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ARE COLLEGE SCHOLARSHIPS REALLY TAX-FREE?

Paying for college often requires a mix of savings, loans and financial aid. Although scholarships can significantly ease the burden, some portions of these awards may come with unexpected tax implications.

Generally, scholarships received by degree candidates are tax-free to the extent they're used for qualified tuition and related expenses. These include tuition, mandatory fees and required books, supplies and equipment. Amounts used for nonqualified expenses — such as room and board or travel — are taxable.

Suppose your child receives an $80,000 scholarship that provides $60,000 for tuition and required expenses and $20,000 for housing. The $60,000 is tax-free, but the $20,000 is taxable.

If a scholarship requires the student to perform services, such as teaching or research, the portion paid for those services must be reported as income and is generally taxable. However, exceptions apply.

Awards from programs such as the National Health Service Corps Scholarship Program, the Armed Forces Health Professions Scholarship and Financial Assistance Program, and certain other programs are generally tax-free.

Additionally, graduate students who receive tuition reductions in exchange for teaching or research activities needn't report these benefits as income. Also, tuition reductions enjoyed by an educational organization's employees or their family members are generally tax-free.

Any taxable portion of a scholarship must be reported on the student's return. If it's not attributable to payment for services, it might trigger the "kiddie tax," meaning unearned income above a certain threshold is taxed at the parents' tax rate. Understanding the rules is essential. Contact us with questions. ■