



Happy New Year!! Through it all, we weathered 2021 together and soon we can close the chapter of what was an extraordinary year. As most of you are aware Dixie retired and I purchased the business. I am very excited to meet all of you this tax season. Firm location did not change and all the familiar faces are here to provide your services. Dixie is working this tax season in the backroom for a smooth transition.

REMINDER TO CLIENTS WHO MAKE ESTIMATED TAX PAYMENTS

The last estimated tax payment for 2021 is due January 15, 2022

Tax due on your tax return and estimated tax payments can be withdrawn from a financial institution of your choice. This takes the headache out of trying to remember to send a check to the IRS for your tax due and/or estimated tax payments four times a year. If you're interested, please advise your preparer.

We are mailing our tax organizer in the hopes that you will take the time to provide necessary information, particularly the areas highlighted in color. We will not start preparing your return until we have a signed engagement letter. If you have a small business or rental, you can access those organizers on our website; www.whbaccounting.com.

Our tax season office hours are Monday through Friday 7-5:30. We are encouraging clients to drop off your tax organizer and documents. We will have a secure drop box on the landing leading down to our office as well as envelopes and other supplies.

Once your return is finished you can either pick up or have your return mailed to you. If you prefer to have your return mailed to you, it would reduce the cost of mailing if you provide copies to WHB rather than original tax documents. Be sure to read the instruction letter for details on how to file your return. If you have further questions, email your preparer. Your tax return will be e-filed once you've returned the signed Form 8879. The form must be signed by both husband and wife, if filing a joint return. Please do not delay returning Form 8879 to our office. The deadline to pay your tax is April 18, 2022 – not the day the return is electronically filed. In order to protect our clients' privacy, our staff cannot provide the amount due or the amount of the refund on your return via phone.

KEY TAX FACTS & INFO

- **ECONOMIC IMPACT PAYMENTS RELATED TO COVID-19** – the third stimulus payment was sent starting in March, 2021 in the amount of \$1,400 per eligible adult and qualifying dependent. The amount of your payment will be reconciled on the 2021 individual tax return. The payments are treated as advance refunds of a 2021 tax credit. The first two stimulus payments were reconciled on the 2020 tax return. The stimulus payments are not taxable on your return. Excess payments have no provision for repayment. For the third stimulus check, people who have died on or after January 1, 2021 are eligible to receive the third stimulus check. Please bring the letter from the IRS regarding the third stimulus payment amount - Letter 6475. The IRS is mailing this letter out in January 2022. If you did not receive the maximum amount you may qualify for an additional amount which will be shown on the tax return.
- **CHARITABLE CONTRIBUTIONS** – For 2021 only, a \$300 charitable deduction is available for single filers who don't itemize deductions on their tax return. This charitable deduction can be up to \$600 for married filers. The limit for charitable contributions in 2021 is 100% of your income. The limit for noncash contributions is 50% of your income.

- **GIFT & ESTATE TAX** - A common question each year involves gifting. A gift of money is not deductible on your tax return and the recipient does not report gifts as income. The annual gift exclusion for 2021 is \$15,000 per person and \$30,000 for joint gifts by husband and wife. The amount increases to \$16,000 per person in tax year 2022. Be sure and include all birthday and holidays gifts when figuring out how much was given to the recipient. Gifts of a direct payment to providers for medical and education expenses do not count toward the annual gift tax limit. The 2021 estate and gift exemption for estates is \$11,700,000 increasing to \$12,060,000 in 2022.
- **PERSONAL EXEMPTION AMOUNT & STANDARD DEDUCTION** - The 2021 standard deduction for married joint filers is \$25,100 and \$25,900 in 2022; Head of household is \$18,800 in 2021 and \$19,400 in 2022 and single is \$12,550 in 2021 and \$12,950 in 2022. Because the standard deduction is generally claimed only when it exceeds available itemized deductions, the increase in the standard deduction will not benefit you if you itemize deductions.
- **CHILD/DEPENDENT TAX CREDIT** – The child tax credit was increased for 2021. Children ages 6 to 17, the child credit is increased to \$3,000 per child and for ages 5 and under the maximum credit is \$3,600. In addition, older dependents will still qualify for the old \$500 credit, but they will not qualify for the advance payment program. The child credit will only apply to whomever claims the child on the 2021 tax return. The IRS is mailing out Letter 6419 in January 2022 confirming the amount of advance amounts received in 2021. **WE MUST HAVE IRS LETTER 6419 TO ACCURATELY CALCULATE THE CHILD CREDIT ON YOUR RETURN.**
- **CREDITS FOR HIGHER EDUCATION EXPENSES** - You may be able to take the American Opportunity Tax Credit or the Lifetime Learning Credit for tuition and fees paid for post-secondary education, graduate school or courses to gain or improve job skills. The American Opportunity Tax credit also includes books as qualified expenses. The tuition and fees deduction for higher education is no longer deductible in 2021.
- **AFFORDABLE CARE ACT** – Form 1095-A is required for anyone who has health insurance on the Market Place. **We must have this form in order to prepare the 2021 tax return.** The amount of your premium tax credit is reconciled on your return which can result in a refund or amount due. If a person receives \$1 or more unemployment in 2021, the taxpayer will receive maximum Health Care Premium from the Marketplace.
- **ITEMIZED DEDUCTIONS** - The ability to itemize deductions has been dramatically decreased because the standard deduction is a much larger amount. You are allowed to deduct the greater of the standard deduction or your itemized deductions. However, we still need to accumulate the information on your medical, tax, mortgage interest, charity and other deductions in order to apply the rules and to complete state tax returns, if required.

In the current tax era of the higher standard deduction, a tax “bunching” strategy is absolutely mandatory. The “bunching strategy” recognizes that the best tax deductions are obtained by putting deductions in one year rather than spreading them amongst several years. For example, in years where your charitable contributions are very low, hold off until the next year to catch up, then also pay the full amount of the next year’s contributions in the “catch up” year in order to double your chances of itemizing. Similarly, few Americans receive medical deductions anymore, but if you incur a large expense in one year try to have as many dollars in the same year which may allow you to itemize. Thus, taxpayers can itemize deductions in the year deductible expenses are bunched and take the standard deduction in other years.

Not deductible -Work related expenses as an employee, moving expenses (moving reimbursements are taxable to the recipient) unless the taxpayer is a member of the Armed Forces, home equity interest unless loan proceeds are used to buy, build or substantially improve a main home or second home, union dues, uniforms, tax preparation fees, safe deposit box rentals, IRA maintenance fees, investment advisory fees, hobby expenses (but income is still taxable) and continuing education expense. Alimony will not be deductible nor will it be taxable to the recipient for divorces executed after December 31, 2018.

- **CHILD AND DEPENDENT CARE CREDIT** – You can claim up to \$8,000 of dependent care expenses for one qualifying dependent and get a 50% tax credit, resulting in a maximum credit of \$4,000. If you have more than one qualifying dependent, you can claim up to \$16,000 in dependent care expenses and get a 50% credit, resulting in a maximum credit of \$8,000. You can only receive this credit if both you and your spouse are working and have adjusted gross income that doesn’t exceed \$125,000.

- **STANDARD MILEAGE RATE** - The standard mileage rate in 2021 for business miles is 56 cents, 14 cents for charity/volunteer miles and 16 cents for medical miles. The 2022 standard mileage rates are 58.5 cents-business, 14 cents-charitable and 18 cents-medical. Vehicle expense deductions are generally calculated using one of two methods: the standard mileage rate or the actual expense method. The IRS tends to focus on vehicle expenses in an audit and disallow them if they are not properly substantiated. You should ensure that you are keeping records of your business mileage in a notebook, diary, trip sheets, calendar or electronic app. Records are considered adequate to substantiate the expense only if the records are prepared and maintained in such a manner that each recording of the expense is made at or near the time the mileage is incurred.
- **BONUS DEPRECIATION/SECTION 179 DEDUCTION** - Through 2022 businesses can elect to deduct 100% of the cost of new and used tangible property purchased and placed in service. Section 179 allows businesses to expense a maximum of \$1,050,000 for qualifying property in 2021. The definition of property that qualifies for the Section 179 deduction has been expanded to include personal property purchased for rentals and any of the following improvements to **nonresidential real property**: roofs, heating, ventilation, air-conditioning property, fire protection, alarm systems, security systems and qualified improvement property.
- **INDIVIDUAL RETIREMENT ACCOUNTS** - You may be able to contribute \$6,000 to a Traditional or Roth IRA. The traditional IRA is deducted on the tax return, whereas, the Roth IRA is not a deduction for tax purposes. It is important to note contributions for Traditional and Roth IRAs combined is limited to \$6,000/\$7,000 depending on your age and the contribution must be made by April 18, 2022. There is no age restriction imposed on contributing to a Traditional IRA.

It is important that you tell your tax preparer if you have contributed to an IRA account, Roth or Traditional. Not everyone qualifies for an IRA contribution and there is a 6% excise tax and 10% penalty on excess contributions for IRAs, both Traditional and Roth. The excise tax applies each year until the excess contribution is withdrawn. Your accountant needs to track your Roth contributions in case you withdraw monies from this account before turning age 59 ½ as there may be earnings on the account that may be taxable. If there is any doubt if you qualify for an IRA deduction we advise waiting until the amount can be determined by your preparer.

Started in 2020, the mandatory age to begin required minimum distributions from your IRA is age 72. The penalty for skipping a required minimum distribution is 50 percent of the amount that should have been withdrawn. However, if you are in the fortunate position of not needing the distribution for living expenses and are charitably inclined, you can avoid income tax on your required withdrawal by donating your money directly to a qualifying charity. You must utilize the direct IRA to charity transfer tool to make the charitable contributions up to \$100,000. This simple trick can save you hundreds of dollars in income tax. You must tell your preparer if you had contributions paid out of your RMD as the 1099R does not show this deduction.

- **HEALTH SAVINGS ACCOUNT / HEALTH FLEX PLAN** - An HSA is a tax-exempt custodial account (similar to an IRA account) in which you can set aside tax-exempt dollars exclusively for medical expenses. The plan requires a high deductible health insurance plan as defined by the IRS. To qualify you must be self-employed or an employee of an employer who maintains a qualified High Deductible Health Plan. Neither income nor withdrawals used to pay medical costs are taxed, but other distributions are taxed and penalized 20%, except for payouts after age 65 or because of death or disability. In 2021 contributions are limited to \$3,600 for single coverage and \$7,200 for family coverage and there is an additional \$1,000 catch-up contribution for persons age 55. HSA contributions must be contributed by April 18, 2022. Contributions for 2022 increased to \$3,650 for individual and \$7,300 for family insurance plan.
- **CAPITAL GAINS TAX** – The tax rate for both long-term capital gains and qualified dividends is generally no higher than 15% for most taxpayers. A zero capital gain rate applies where income is not above \$40,400 (single), \$80,800 (joint), or \$54,100 (head of household) in 2020. The maximum rate for capital gains tax is 20% which is assessed on high income tax returns.

Gifting appreciated stock to a qualified nonprofit can save tax dollars. Generally the higher the appreciated value of an asset, the bigger the potential value of the tax benefit. It entitles you to a charitable donation at the fair market value and avoids capital gains if you sold the stock.

- **QUALIFIED BUSINESS INCOME – QBI DEDUCTION** – In its simplest terms, the deduction is 20% of the lesser of qualified business income or taxable income. The QBI deduction applies to business income of sole proprietors, partnerships/LLCs and S corporations. This deduction is the attempt to offer lower taxes to small businesses that are not treated as a C corporation that has a flat 21% tax rate. If a taxpayer's taxable income is less than \$329,800 for a married filing joint return, or less than \$164,900 for all others, the deduction is simply 20% of the lesser of taxable income or qualified business income.

A taxpayer engaged in a "specified service trade or business" and whose taxable income exceeds the fully phased in threshold amount of \$429,800 (joint filer) or \$214,900 (all others) are not allowed a QBI deduction. A specified business is a business involving the performance of services in the fields of, health, law, consulting, accounting, performing arts, actuarial services, athletics, financial services or brokerage services.

- **SOCIAL SECURITY** - Social security tax is paid on earned income with a maximum earnings base of \$142,800 in 2021 and increases to \$147,000 in 2022. The medicare portion of social security taxes has an unlimited income threshold. Working retirees receiving social security benefits (younger than their normal retirement age) can earn \$18,240 in 2020 and \$18,960 in 2021 before having to repay the SSA. Make more than that in earnings and you lose \$1 in annual benefits for every \$2 that you are above the threshold. Social security benefits will increase by 2.9% cost-of-living adjustment in 2022.
- **MEDICARE MONTHLY PREMIUM-PART B** – The monthly premium paid in 2021 is based on the income reported on your 2019 tax return. Your 2022 monthly premium is based on the income reported on your 2020 tax return. Medicare Part B lowest monthly premium in 2021 was \$148.50 and increased to \$170.10 for 2022. Medicare premiums are adjusted if you have more income than \$88,000 for a single person and \$176,000 for married joint returns in 2021 increasing to \$91,000 and \$182,000 respectively. The income-related monthly adjustment amounts (IRMAA) affect roughly 7 percent of people with Medicare Part B. If there is an upward adjustment in premium it will only be for one calendar year and then is reset based on the next year's tax return.

NEW IN 2021 -

- If a person receives \$1 or more unemployment in 2021, the taxpayer will receive maximum Health Care Premium from Marketplace.
 - Tuition deduction in the amount of \$4,000 is no longer deductible in 2021.
 - Unemployment is 100% taxable in 2021.
 - Educator (K-12) deduction of \$250 expanded to include amounts spent on protective equipment and supplies
 - A \$300 above-the-line cash charitable contribution deduction is available for a single/head of household non-itemizer in 2021 and \$600 for a married filing joint return.
 - Business expense deduction for 100% of meals as long as food and beverages provided by a restaurant.
 - The third stimulus was sent out starting in March, 2021. The maximum amount per person and dependent was \$1,400. The IRS is sending a letter (Letter 6475 in January 2022 with the amount you received. We must have this letter in order to accurately prepare your tax return.
 - Earned income tax credit increased for 2021. You must be at least age 19 to claim the credit.
 - Taxpayers with Identity Protection Personal Identification Numbers (IP PINs) need to be sure to bring in the letter from the IRS. A new IP PIN will be issued each year and without it your return will experience processing delays. Starting in January 2021 the IRS will allow all individuals to receive an IP PIN.
- **EXTENSIONS TO FILE** - There are no additional costs to file an extension as long as any income tax that may be due is sent to the IRS with the extension. Late payment penalty and interest will be assessed by the IRS from the due date until the day the tax is paid. The IRS will send a bill for penalties and interest. It is your responsibility to determine the amount to be sent with your extension and also to make your current year quarterly estimated tax payments even if your tax return is extended. WHB will send your extensions on April 18, 2022 to the IRS. The extended due date for individual tax returns is October 17, 2022. S corporation and partnership tax returns are due on March 15, 2022 and if extended, the due date is September 15, 2022. There are penalties for not filing by the due date or not filing an extension.

We thank you for your business and I am looking forward to meeting each of you. Sending you warm holiday cheer and wishing you a Happy New Year!!

Marcia Pelton

WHB Accounting Services, LLC