December Monthly Newsletter 2021

Important Reminders

Nov 28 - Dec 6 – Hanukkah

December 23 – Ohio Monthly Sales & Use Tax Return and Payment

December 25 - Christmas Day

December 26 - Kwanzaa begins

January 18 - 4th Quarter Estimated Payments Due

Take final year-end actions

- Deductible gifts
- Capital gains/losses
- Charitable giving
- Dividend income

*** The offices will be closed Friday December 24 & will close at 3pm on Friday December 31.**

To help celebrate this holiday season and momentarily forget about potential supply shortage frustrations you may encounter while shopping, this month's newsletter features a fun quiz about toy crazes from the past. This fun trip down memory lane is sure to be a crowd pleaser!

Also read about recent tax court cases that have great tax messages for all of us, five great money tips, and ideas to help your business prepare for surprise expenses.

Please call if you would like to discuss how this information could impact your situation. If you know someone who could benefit from this newsletter, feel free to send it to them.

December Monthly Newsletter 2021

2021 Year-End Tax Planning

With year-end approaching, it is time to start thinking about moves that may help lower your tax bill for this year and next. This year's planning is more challenging than usual due to the uncertainty surrounding pending legislation that could, among other things, increase top rates on both ordinary income and capital gain starting next year.

Whether or not tax increases become effective next year, the standard year-end approach of deferring income and accelerating deductions to minimize taxes will continue to produce the best results for all but the highest income taxpayers, as will the bunching of deductible expenses into this year or next to avoid restrictions and maximize deductions.

If proposed tax increases do pass, however, the highest income taxpayers may find that the opposite strategies produce better results: Pulling income into 2021 to be taxed at currently lower rates, and deferring deductible expenses until 2022, when they can be taken to offset what would be higher-taxed income. This will require careful evaluation of all relevant factors.

We have compiled a list of actions based on current tax rules that may help you save tax dollars if you act before Year-end. Not all of them will apply to you, but you (or a family member) may benefit from many of them. We can narrow down specific actions when we meet to tailor a particular plan for you. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves might be beneficial:

- Higher-income individuals must be wary of the 3.8% surtax on certain unearned income. The surtax is 3.8% of the lesser of: (1) net investment income (NII), or (2) the excess of MAGI over a threshold amount ($250,000 for joint filers or surviving spouses, $125,000 for a married individual filing a separate return, and $200,000 in any other case).

- Pending legislative changes to the 3.8% net investment income tax NIIT proposed to be effective after this tax year would subject high income (e.g., phased-in starting at $500,000 on a joint return; $400,000 for most others) S shareholders, limited partners, and LLC members to NIIT on their pass-through income and gain that is not subject to payroll tax. Accelerating some of this type of income into 2021 could help avoid NIIT on it under the potential 2022 rules, but would also increase 2021 MAGI, potentially exposing other 2021 investment income to the tax.

- Long-term capital gain from sales of assets held for over one year is taxed at 0%, 15% or 20%, depending on the taxpayer's taxable income. If you hold long-term appreciated-in-value assets, consider selling enough of them to generate long-term capital gains that can be sheltered by the 0% rate. The 0% rate 2 generally applies to net long-term capital gain to the extent that, when added to regular taxable income, it is not more than the maximum zero rate amount (e.g., $80,800 for a married couple; estimated to be $83,350 in 2022). If, say, $5,000 of long-term capital gains you took earlier this year qualifies for the zero rate then try not to sell assets yielding a capital loss before Year-end, because the first $5,000 of those losses will offset $5,000 of capital gain that is already tax-free.

- Postpone income until 2022 and accelerate deductions into 2021 if doing so will enable you to claim larger deductions, credits, and other tax breaks for 2021 that are phased out over varying levels of AGI. These include deductible IRA contributions, child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income also is desirable for taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to accelerate income into 2021. For example, which may be the case for a person who will have a more favorable filing status this year than next (e.g., head of household versus individual filing status), or who expects to be in a higher tax bracket next year. That is especially a consideration for high income taxpayers who may be subject to higher rates next year under proposed legislation.

- If you believe a Roth IRA is better for you than a traditional IRA, consider converting traditional-IRA money invested in any beaten-down stocks (or mutual funds) into a Roth IRA in 2021 if eligible to do so. Keep in mind that the conversion will increase your income for 2021, reducing tax breaks subject to phaseout at higher AGI levels. This may be desirable, however, for those potentially subject to higher tax rates under pending legislation.
- It may be advantageous to try to arrange with your employer to defer, until early 2022, a bonus that may be coming your way. This might cut as well as defer your tax. Again, considerations may be different for the highest income individuals.

- Many taxpayers will not want to itemize because of the high basic standard deduction amounts that apply for 2021 ($25,100 for joint filers, $12,550 for singles and for marrieds filing separately, $18,800 for heads of household), and because many itemized deductions have been reduced or abolished, including the $10,000 limit on state and local taxes; miscellaneous itemized deductions; and non-disaster related personal casualty losses. You can still itemize medical expenses that exceed 7.5% of your AGI, state and local taxes up to $10,000, your charitable contributions, plus mortgage interest deductions on a restricted amount of debt, but these deductions won't save taxes unless they total more than your standard deduction. In addition to the standard deduction, you can claim a $300 deduction ($600 on a joint return) for cash charitable contributions.

- Some taxpayers may be able to work around these deduction restrictions by applying a bunching strategy to pull or push discretionary medical expenses and charitable contributions into the year where they will do some tax good. For example, a taxpayer who will be able to itemize deductions this year but not next will benefit by making two years' worth of charitable contributions this year. The COVID-related increase for 2021 in the income-based charitable deduction limit for cash contributions from 60% to 100% of MAGI assists in this bunching strategy.

- Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2021 deductions even if you don't pay your credit card bill until after the end of the year.

- Required minimum distributions RMDs from an IRA or 401(k) plan (or other employer-sponsored retirement plan) have not been waived for 2021, as they were for 2020. If you were 72 or older in 2020 you must take an RMD during 2021. Those who turn 72 this year have until April 1 of 2022 to take their first RMD but may want to take it by the end of 2021 to avoid having to double up on RMDs next year.

December Monthly Newsletter 2021

- If you are age 70 or older by the end of 2021, and especially if you are unable to itemize your deductions, consider making 2021 charitable donations via qualified charitable distributions from your traditional IRAs. These distributions are made directly to charities from your IRAs, and the amount of the contribution is neither included in your gross income nor deductible on Schedule A, Form 1040. However, 3 you are still entitled to claim the entire standard deduction. (The qualified charitable distribution amount is reduced by any deductible contributions to an IRA made for any year in which you were age 70 or older, unless it reduced a previous qualified charitable distribution exclusion.)

- Take an eligible rollover distribution from a qualified retirement plan before the end of 2021 if you are facing a penalty for underpayment of estimated tax and increasing your wage withholding will not sufficiently address the problem. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2021. You can then timely roll over the gross amount of the distribution, i.e., the net amount you received plus the amount of withheld tax, to a traditional IRA. No part of the distribution will be includible in income for 2021, but the withheld tax will be applied pro rata over the full 2021 tax year to reduce previous underpayments of estimated ax.

- If you become eligible in December of 2021 to make HSA contributions, you can make a full year's worth of deductible HSA contributions for 2021.

- Make gifts sheltered by the annual gift tax exclusion before the end of the year if doing so may save gift and estate taxes. The exclusion applies to gifts of up to $15,000 made in 2021 to each of an unlimited number of individuals. You can't carry over unused exclusions to another year. These transfers may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.

These are just some of the Year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you.

December Monthly Newsletter 2021

Court Is In Session- Notable Tax Court Cases

Despite the COVID-19 pandemic, political unrest and severe weather events, the Tax Court has continued to churn out decisions affecting individual and business taxpayers. Here's a brief sampling of several cases that may be of particular interest.

- **Coming Up Aces.** *(Coleman, TC Memo 146, 10/22/20)* You can generally deduct gambling losses up to the amount of your winnings from gambling activities if you can provide proper documentation. Now the Tax Court has allowed one taxpayer to estimate his expenses absent proper documentation.

  Facts: A compulsive gambler was able to show that he likely spent the money from a $150,000 personal injury settlement in local casinos. The gambler, however, didn't have the usual records to substantiate his claims. The Court allowed an estimated deduction because it was clear he had incurred significant expenses. The gambler was able to net his $350,000 in gambling winnings with $350,000 in estimated gambling losses.

  Tax Tip: Save documentation for all your tax deductions, including gambling winnings and losses. Don't rely on a tax court ruling!

- **Home (Not) Sweet Home.** *(Soboyede, TC Summ. Op. 2021-3, 1/26/21)* Your tax home for deducting travel expenses isn't necessarily the place where you live. It's the general area of your primary workplace.

  Facts: The taxpayer was an attorney with separate law practices in Minnesota and Washington, D.C. He deducted his hotel expenses and other travel costs in the D.C. area. But his records showed he actually spent more than 50% of his work time in or near the D.C. location. The Tax Court concluded that the attorney's tax home is actually in D.C. As a result, he couldn't deduct his hotel and other expenses from the D.C. area.

  Tax Tip: You can deduct travel expenses only away from your tax home. If you work in multiple locations, be sure you know which location the IRS considers to be your tax home.

- **Skidding Off The Racetrack.** *(Berry, TC Memo 2021-42, 4/7/21)* A business can deduct advertising and marketing expenses that are related to its business activities. No write-off is allowed, however, for personal expenses.

  Facts: A father and son who owned a construction company were race car enthusiasts. They deducted expenses for the son's racing activities that were incurred as an advertising and marketing expense of the construction company. The Tax Court disallowed the deduction, ruling the expenses were a hobby expenditure, not an ordinary and necessary business expense that can be deducted for tax purposes.

  Tax Tip: Understand what is considered an ordinary and necessary business expense by the IRS and know whether your activity is deemed to be either a hobby or a for-profit business enterprise.

- **A Slight Understatement.** *(Pragrias, TC Memo 2021-82, 6/30/21)* The IRS normally has three years from the due date of a tax return to conduct an audit of that return. This three-year period is extended to six years, however, if the tax return omits more than 25% of taxable income.

  Facts: The taxpayer received $4.9 million from a complex investment but reported only about $1.5 million. The IRS audited the return after three years. Despite the taxpayer's contention that he didn't omit taxable income—he said he merely understated it—the Tax Court ruled that the longer six-year limit applies. And as a general rule, there is no statute of limitations for the IRS when fraud is involved.

  Tax Tip: Understand the applicable statute of limitations with your tax returns.

Please call if you have any questions about these tax court cases or any other circumstances that you think apply to your tax situation.

December Monthly Newsletter 2021

Holiday Quiz: These Hot Toys Created Shortages

How well do you know the holiday shortages of yesterday?

With all the talk around ports being clogged and transportation backups causing product shortages, why not look back at famous holiday shortages caused by the demand for the toy EVERYONE just had to have! So, grab your family and friends, put away the cell phones, take out a piece of paper, and see who knows more about these true, historic shortages.

1. In 1983, this toy came with its own certificate of adoption, but only if you could find one.
2. This hand-held gadget created a bond that if broken could be fatal. At its peak they were selling 15 of them every minute!
3. In 2014, this supplier limited purchases of this toy to two dozen per person, but it sold out months before the holidays, with some selling on eBay for as much as $1,000. Fortunately, the company making the toy was able to solve the supply problem in time for the holidays. Can you name it?
4. For three years in a row, from 2005 thru 2007, game consoles were all the rage. Give yourself a point if you can name all three.
5. Red and popular, this toy was as scarce as ice in a campfire during 1996. But every small child just had to have one.
6. This hand-held puzzle was all the rage in 1981. Can you name it?
7. In 1998 these small creatures could be trained to speak English…that is if you could get one.
8. Often a TV program inspires scarcities in the toys it creates. This colorful group was tough to find in 1993. Never fear, the supplier geared up for the next season only be out of stock once again in 1994. What is the name of this group of toys?
9. These little furballs were cute, cuddly and hard as ever to find in 2009. This $9 toy often fetched up to $60 each. Can you name them?
10. And last, but not least, this extremely popular toy in the 1950s may have started the holiday toy craze…mainly because it was advertised on television. But the toy required a food product from your pantry to make it come to life. What was it?

Answers:*1. Cabbage Patch Kids, 2. Tamagotchi, 3. Elsa doll from Disney's Frozen movie, 4. Xbox 360, PlayStation 3, and Nintendo Wii, 5. Tickle Me Elmo, 6. Rubik's Cube, 7. Furby, 8. Mighty Power Rangers, 9. ZhuZhu Pets, and 10. Mr. Potato Head*

So how did you do?

0 – 2 right…No worries. Shortages don't seem to bother you.

3 – 5 correct…You probably have asked for a couple of these.

6 – 8 correct…You are a cultural icon! Pat yourself on the back.

9 – 10 correct…You are a monster shopper.

December Monthly Newsletter 2021

Five Great Money Tips

Creating a sound financial foundation for you and your family is anything but easy. With low interest rates as an incentive to borrow more and even lower interest rates on savings accounts is it any wonder that it's tough to retain the discipline to save? Here are five thoughts that may help.

- **Pay yourself first.** Treat saving money with the same care you pay your bills. Take a percentage of everything you earn and save it. Using this technique can help build an emergency fund and keep you from living paycheck to paycheck.

  Know and use the Rule of 72. You can roughly calculate the number of years compound interest will take to double your money using the Rule of 72. Do this by dividing 72 by your rate of return to estimate how long it takes to double your money. For example, 10% interest will double an investment in 7.2 years; investments with an 8% return will double in nine years. Use this concept to understand the power of saving and investment.

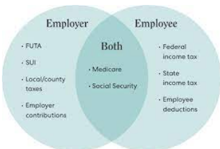
- **Use savings versus debt for purchases.** Unpaid debt is like compound interest but in reverse. For instance, using a 12% interest credit card to pay $1,500 for home appliances costs over $2,000 if paid back over 5 years. The result is that you have to work harder and earn more to pay for the items you purchase. A better idea may be to save and then buy your dream item.

- **Understand amortization.** When a bank loans you money, it gives you a specific interest rate and a set number of years to pay it back. Each payment you make contains interest as well as a reduction of the amount owed, called principal. Most of the interest payments are front-loaded, while the last few payments are virtually all principals. Making additional principal payments at the beginning of the loan's term will decrease the amount of interest you pay to the bank and help you pay off the loan more quickly.

- **Taxes are complex and require help.** Tax laws are complicated. They are made even more complex when the rules change, often late in the year. Even worse, the IRS is not in the job of telling you when you forget to take a deduction. The best way to stay out of the IRS spotlight AND minimize your taxes is to ask for help.

STEPHENSON & WARNER, INC.
CERTIFIED PUBLIC ACCOUNTANTS

December Monthly Newsletter 2021



Make Payroll Taxes Easy in 2022

Handling employment taxes can be complicated, especially when you're required to file important tax documents throughout the year. Here's a quick recap of the most vital payroll tax forms and what you can do to make your payroll life easier heading into 2022.

Important Payroll Tax Forms

- **Form 941 — Employer's quarterly federal tax return.** This form is used to report income tax withheld from employees' pay and both the employer's and employees' share of Social Security and Medicare taxes. Employers generally must deposit Form 941 payroll taxes on either a monthly or semiweekly deposit schedule.

- **Form 940 — Employer's annual federal unemployment tax return (FUTA).** This return is due annually at the end of January. However, FUTA taxes must generally be deposited once a quarter if the accumulated tax exceeds $500.

- **Form W-2 — Wage and tax statement.** Employers are required to send this document to each employee and the IRS at the end of the year. It reports employee annual wages and taxes withheld from paychecks.

Make payroll easier

- **Remind employees to review withholdings.** January is a great time to remind your employees to check their paycheck's tax withholding amounts. Various life events in the preceding 12 months can potentially lead to one of your employees owing a different amount of taxes in 2022 than they owed in 2021. And no matter how hard you try; employees will ask for your help. So, get ahead of the curve with this simple review reminder.

- **Create a payroll forecast.** Be prepared for how much you'll spend on salaries and wages in 2022 by creating a payroll expense and benefit forecast. In addition to base salaries and wages, include the following in total salary and wage expenses: Your share of an employee's Social Security and Medicare taxes; health insurance premiums paid on behalf of employees; and any other benefits you provide to employees.

- **Ask for help.** Payroll compliance involves many moving parts at the local, state and federal levels. Please call if you have any questions about your business's payroll tax compliance, and how to properly account for payroll expenses on your financial statements.

December Monthly Newsletter 2021

JUST THE FACTS: Borrowed Money Must Be Paid Back

In the back of every Form 1040 instruction booklet there's a section that shows where our federal government gets its money and where it is spent. As taxpayers, it makes sense to know this information. Here is the data for the government's fiscal year ending September 30, 2019, as reported by the IRS in the 2020 instruction booklet for Form 1040. Please note that this spending is prior to COVID-19 relief bills.

	FY Ending 2019
Inflow:	**$3.464 trillion**
Outflow:	**$4.448 trillion**
Deficit:	**$984 billion**

TOTAL INFLOWS

39% Personal Income Taxes

28% Social Security, Medicare, Unemployment Taxes

22% Borrowing to Cover Deficit

6% Excise, Customs, Estate, Gift and Misc Taxes

5% Corporate Income Taxes

SPENDING BREAKDOWN

42% Social Security, Medicare, & other retirement. These programs provide income support for the retired and disabled and medical care for the elderly.

21% National defense, veterans, and foreign affairs. About 15% of outlays were to equip, modernize, and pay our armed forces and to fund national defense activities; about 4% were for veterans' benefits and services; and about 1% were for international activities.

21% Social programs. About 15% of total outlays were for Medicaid, SNAP (formerly food stamps), TANF, SSI; and 6% for health research and public health programs unemployment compensation, assisted housing, and social services.

8% Net interest on the national debt (at historically low interest rates).

6% Physical, human, and community development. These outlays were for agriculture and environment; transportation; aid for education and college assistance; job training; deposit insurance, commerce, and housing credit; and space, energy, and general science programs.

2% Law enforcement and general government.

SOURCE: IRS publication i1040gi, P.110, 2020 Tax Year

December Monthly Newsletter 2021

What You Need To Know

- **Deficits of $1 trillion are not sustainable.** No matter where you fall on the political spectrum, annual deficits of $1 trillion cannot be sustained. And remember, this information is detailing a pre-pandemic deficit. It may be several more years before the annual deficit gets back down to this level, if at all.

- **Government borrowing hurts all taxpayers.** In 1990, $50,000 worth of Certificates of Deposits (CDs) earned a cool 8% interest, or $4,164, each year. Today, that same $50,000 earns just 0.6%, or $301. What happened to the other $3,863? Your interest income is now helping to cover money borrowed by the government in the form of lower interest rates. Look at 2019...almost ¼ of the money spent by the federal government was borrowed!

- **Low interest expense risk.** Look at the percentage of money spent on interest expense in 2019. It's 8% with interest rates hovering around zero. So, what happens when rates actually start to go up? As a percentage of overall expenditures, interest expense could double to 16%...and potentially go even higher than that.

- **Make a difference.** Whether we should spend more or less is not the issue. It is that spending more than you bring in will cause big problems…eventually. Money doesn't just magically appear on printing presses. That money must come from someplace and that someplace is from everyone. So, make your voice heard…it's your money!

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

December Monthly Newsletter 2021

"You gave away 60 billion toys and didn't get one receipt?!"

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us at 513.868.8600.