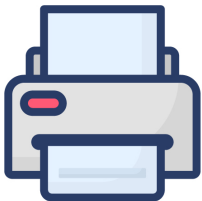


TAX TIME BASICS LETTER

IT'S TAX TIME AGAIN...

Once again, it's time to file and pay your taxes. Your mailbox should be filling up with the information you will need to get the job done.

This letter is full of information designed to help you prepare your tax documents so you will pay only the tax that you rightfully owe.



Time to get organized

The following checklist will help you collect the documents needed to file your tax return.

- Your last 3 years' tax returns (*new clients*).
- Social Security numbers and dates of birth for taxpayers, spouses and dependents.
- Copy of Driver's License for taxpayer and spouse.
- W-2 Forms.
- 3rd Economic Impact Payment ('stimulus'). Bring IRS Letter 6475 and/or 1444-C.
- Advance payments of the Child Tax Credit received in 2021 (bring IRS Letter 6419).
- Your last paycheck stub of the year (for each job).
- 1099 Forms for interest, dividends, sales, retirement, Social Security, self-employment, and unemployment. ★ Remember to download and print statements from online accounts that don't send paper tax forms.
- Property tax statements.
- Forms 1098 for mortgage interest.
- Foreign accounts. Bring statements. Such assets must be disclosed even if they do not generate income.
- Purchase and sale information, including dates, relating to anything sold.
- Stock options. Form 1099-B and 'supplemental' brokerage statements showing amounts already reported as income on form W-2.
- Cryptocurrency. Bring details including dates, proceeds, and original cost.
- Child care provider information (name, address, SS#, amount paid). Required even if you have a daycare flex account at work.
- Names, addresses, and Social Security numbers from whom you received interest, or to whom you paid interest.
- Bankruptcy or divorce papers (if applicable).
- If you paid an individual \$600 or more for services in connection with your business, please provide their name, address, and tax ID#.
- Records showing income and expense for business and/or rental property you own. Records of business and personal mileage are required for automobile deductions.
- Form K-1 if you have an interest in a Partnership, S-Corporation, Estate or Trust.
- IRA year-end statements.
- Bring details for **all other income**, whether you think it's taxable or not. Examples may include foreign income, barter, hobby, settlements, awards/prizes, gambling, etc.
- Forms 1098-T for post-secondary tuition payments are sent to the student. If the student is your dependent you must get it from them.
- Forms 1099-Q for education savings plan distributions.
- Estimated taxes paid (including amount and date of each separate payment).
- Student loan interest forms 1098-E.
- Adoption costs if applicable. Also bring the legal adoption documents.
- Form 1098-C for donations of automobiles or boats.
- Details for charitable donations. Bring receipts. For noncash donations totaling over \$500 include date, place, fair market value, and original cost.



- If you purchased a new electric plug-in vehicle, bring the year, make and purchase date.
- If you installed solar or geothermal systems for your home or cabin bring receipts.
- Noncustodial parents claiming children need a signed IRS Form 8332 to claim the child.
- If debts were forgiven, bring Form 1099-C or 1099-A.
- If you bought, sold, or refinanced a home bring the closing papers.
- Forms 1099-K for internet or credit card sales.
- Health Savings Account (HSA) contributions and distributions. Bring forms 5498-SA and 1099-SA.
- Form(s) 1095 for health insurance.
- Out of pocket medical expenses may be deductible (if large). Bring details.
- Form 1099-LTC for long-term care policy benefits paid.
- Pandemic related business assistance. Bring details related to PPP loans and/or Employee Retention Credits.
- Bring a voided check for direct deposit of any refunds you expect to receive.

YEAR-END TAX TIPS

Consider the following before 2021 comes to an end:

Lower Your Taxable Income:

Employees still have time to increase pre-tax deductions (e.g. 401(k), 403(b), etc.) from their paycheck (unless already maxed). Self-employed folks can lower their taxable income too by making business purchases before the end of the year or contributing to a SEP IRA before the filing deadline (including extensions).

Why consider this? Not only can it reduce tax, but there are plenty of credits and surtaxes that are sensitive to income levels. Each income threshold is calculated differently and there are other limiting factors, so ask for help if you need to figure out precisely how much extra to contribute. With that in mind, here are some of the most common examples:

Did you not get the 3rd stimulus because you made more than \$160,000 in 2019/2020? Perhaps you can qualify by lowering your 2021 AGI below \$160k?

Do you have kids in college? The American Opportunity Credit (first four years of college) begins to phase out at an income of \$80,000 (single) and \$160,000 (married).

Do you own a business? The QBI deduction begins to phase out for many businesses starting at a taxable income of \$164,900 (single) and \$329,800 (married).

Do you have a modest income? The Earned Income Credit phases out at varying income levels between \$21,430 (single with no qualifying children) and \$57,414 (Married with 3+ children).

Do you have a larger income? The final phase-out of the Child Tax Credit resumes at \$200,000 (single) and \$400,000 (married). Medicare and investment surtaxes begin at \$200,000 (single) or \$250,000 (married).

Do you put money in a Roth IRA? Contributions to a Roth IRA begin to phase-out at \$125,000 (single) or \$198,000 (married). Roth conversions, however, are still allowed at any income level.

Do you own rental property?

Your ability to deduct most rental losses incurred during the current tax year phases out between \$100,000 and \$150,000 of income.

Are you paying student loans? Your ability to deduct the interest begins to phase out at \$70,000 (single) and \$140,000 (married).

Do you buy ACA health insurance on healthcare.gov (or state run exchange)? Your premium contribution is limited to 8.5% of household income. As such, lower incomes result in a higher Premium Tax Credit.

Charity:

Roughly 85%+ of taxpayers will not itemize this year. If that's you, consider the following charity tax strategies:

- **Give up to \$300 anyway.** A new rule allows you to deduct up to \$300 in monetary contributions even if you don't itemize (\$600 for married filing jointly).
- **Plan ahead for a QCD:** Qualified Charitable Distributions (QCDs) from an IRA are allowed for taxpayers over age 70^{1/2}. The contribution must be made directly from the IRA to the charity. Seniors that use this strategy can take the deduction even if they don't itemize.

Selling investments?

If your taxable income is likely to fall below \$40,525 (single) or \$81,050 (married) consider selling long term investments that have gained in value. You will not pay any federal tax on the gain if you keep your taxable income below those thresholds.

Conversely, it might be wise to check your portfolio for losses. You can offset up to \$3,000 of other income with investment losses. If you wish to repurchase the stock again, wait at least 31 days to avoid a wash-sale that disallows the loss.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

Roth conversions:

The deadline to convert funds from a traditional IRA to a Roth IRA is 12/31/21. Remember, the amount converted is taxable income. Also remember that you can no

longer undo Roth conversions at a later date.

Health insurance:

If you choose a health plan that is compatible with Health Savings Accounts (HSA) you should start funding your HSA right away. That's because medical expenses do not count as a "qualified" for tax free distributions if they occur before the HSA was funded. The maximum amount you can shelter per year is \$3,600 (single) or \$7,200 (married). You should contribute the maximum if you can afford to. That's because HSAs have three tax benefits;

1. Contributions are a tax deduction.
2. Distributions for qualified medical expenses are tax free.
3. You can invest the funds and reimburse yourself for qualified medical expenses after the account has grown in value.

Employee fringe benefits:

Aside from HSAs, look into other pre-tax spending options that your employer offers such as; insurance, day-care, commuting, parking, education, etc.



Looking to 2022...

Congress is still debating whether or not the generous 2021 tax provisions (see page 3 for details) will be further extended.

To pay for the low/middle income tax breaks Congress is also debating:

- Raising the highest tax bracket from 37% to 39.6%
- Increased capital gains tax rates for the wealthy.
- Increased tax rates for profitable corporations.
- Increased taxes for wealthy estates.

More audits in the future?

The Biden administration proposes to increase IRS funding by \$80 billion (partially to fund more audits). This is just a proposal and funding has not been approved.



The basic strategy for year-end tax planning can be summed up in the following two statements:

- Channel your income into the year where it will be taxed at a lower rate.
- Channel your deductions to the year where your income will be taxed at a higher rate.

If you need year-end tax planning a consultation would be wise.

