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## “Important Tax Information Enclosed” Is Coming

> Prepare for the April 18, 2022, Filing Deadline <

Most of the needed tax records to prepare your tax return will show up in the mail or online in January 2022. Collecting all your tax related documents is important so that we prepare a complete and accurate return.

The IRS also gets copies of many of these documents and will match your tax return to their records.

**Let's review what you should be looking for...**

### NEW for 2021! IRS Letter 6419 Advance Child Tax Credit Payments

In January 2022, the IRS will send you Letter 6419 to provide the total amount of Advance Child Tax Credit payments that were disbursed to you during 2021. Please keep this letter regarding your Advance Child Tax Credit payments with your tax records. We will need to refer to this letter when I prepare your 2021 tax return during the 2022 tax filing season. This letter is extremely important for us to accurately reconcile your advance payments against the actual child tax credit that you are entitled to claim.

**(See more about the Advance Child Tax Credit in the “Tax Tips for You...Now!” section of this Newsletter).**

➤ **W-2s.** Read them carefully. Contact your employer if there is a discrepancy or if you do not receive it by the end of January.

➤ **1099s.** You should receive 1099-INT or 1099-DIV forms for any accounts that pay interest or dividends. Even tax-exempt interest

must be reported. **IMPORTANT:** “Corrected” forms are always a possibility. Be alert for such announcements.

➤ **1099-K.** This Form may indicate proceeds for transactions involving the sale, redemption or use of **Cryptocurrency** (i.e., Bitcoin). Cryptocurrencies are treated similarly to property like stocks, bonds, and real estate.

receive a 1099 for self-employment income called 1099-NEC if:

- You received the payment from someone who is not your employer (you may be considered an independent contractor),
- You received the payment for services,
- You received payments of at least \$600 during the year.

may not result in taxable income. We need to see them to correctly prepare your return.

➤ **Form 1095-A.** You would receive a 1095-A if you purchased Health Care through the Health Insurance Marketplace and had part of your premiums offset by the Advance Payments of Premium Tax Credit. This form is needed to calculate the actual Premium Tax Credit for which you would be entitled.

➤ **Form 1098.** Reports mortgage interest paid to a bank, savings & loan, or credit union. These forms may also report real estate taxes (if payments are escrowed by the lender).

➤ **Other Income.** Look for 1099s of state tax refunds, unemployment income, prizes or gambling winnings or rents that you collect. Read each one carefully and keep them with all your other tax documents. Gambling winnings can also be reported on Form W-2G.

➤ **Your Records.** Review records for possible income or deductions. Add up medical expenses and any taxes paid. If you recall paying a deductible expense but do not have a receipt, jot it down and we can discuss it before your return is prepared. Charitable contributions are different – you must have receipts, or your deduction could be challenged and denied! If you are missing a receipt, contact the charity to see if you can get the document(s) needed.

**Start Collecting All Of Your Tax Related Documents**



During the year, if you have more than \$20,000 in proceeds and 200 transactions through one crypto exchange, you will receive Form 1099-K.

You may have reportable crypto transactions even though you may not receive a 1099-K if you have transactions below these reporting requirements.

I will need a listing of each of your crypto transactions so that all tax reporting requirements are met.

The **1099-K** also reports Payment Card and Third-Party Network Transactions.

➤ **Other 1099s.** You will generally

You will generally receive a **1099-MISC** for rents or royalty payments that you received.

Real estate sales are often reported on 1099-S. Stock sales on 1099-B or Consolidated 1099. Pension, 401K, and IRA distributions are reported on 1099-R. Pay special attention to forms 1099-A and 1099-C. These report foreclosures and debt consolidations or debt cancellations which may or

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## Frequently Overlooked Tax-Related Info!

Take extra time to make sure that you have all the necessary facts if any of the following situations applies to you.

- ✓ **Child Care Expenses.** I need the full name, address, telephone number and tax ID number of your care providers, and the total paid per child to each caregiver.
- ✓ **Estimated Federal Tax Payments.** Find the date and amount for payments. April 15, 2021, June 15, 2021, September 15, 2021, and January 18, 2022. A Federal January 2021 payment would have been claimed on your 2020 return.
- ✓ **Sales of Property.** The most important item is the Final Settlement Statement. Include a list of home improvements in all prior years since purchase. You may also receive a 1099-S showing the gross sales price for the property.
- ✓ **College Tuition.** Form 1098-T lists tuition paid. These forms are generally

- partnerships, S-Corps and Trusts always seem to arrive late. Don't worry. We can do the rest of your return and be ready to finish when the elusive K-1 arrives.
- ✓ **Social Security Benefits.** Look for Form 1099-SSA. We must report the gross amount and not just your net monthly benefit. Your Medicare Premiums listed on the form may also provide you with a medical deduction.
- ✓ **Employees – Last Pay Stub.** Your W-2 is critical, but your last pay stub may reveal tax deductions that do not usually show up anywhere else. Some charitable contributions may be reported that are deductible on your Federal Income Tax Return. Other reported items, such as union



- available electronically to the student. Make sure that the "student" checks for these forms and gives them to you. I need these forms as well as details on the courses, all education-related expenses for required equipment and related fees, when each item was paid and who the "student" was.
- ✓ **Sales of Stock.** Form 1099-B shows sale prices or proceeds. If this form does not show the original purchase information, you will need to provide this.
- ✓ **Tax Rules On Pass-Through Entities Continue.** Schedules K-1 from

- dues or employee expenses are no longer deductible on your Federal Income Tax Return but may continue to be deductible on your State or Local Income Tax Returns.
- ✓ **Special Accounts.** Do you contribute to an IRA, Roth IRA or Health Savings Account? These and others can affect your taxes. Make sure I have all 1099s and information on contribution and distribution amounts and dates.
- ✓ **Complex Transactions.** Please call if you have a foreclosure, sale or exchange of real estate, casualties such as a natural disaster.

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person) deduction. This deduction is available only to taxpayers that do not itemize their deductions on Schedule A.

#### ✓ You Can Make IRA Contributions Beyond Age 70½

You can continue to contribute from your earned income (i.e., paycheck) to your traditional IRA past age 70½. These contributions can be made up to April 18, 2022, and still be counted for the 2021 tax year. Contributions limits for 2021 remain the same as 2020 with limits of \$6,000 and additional \$1,000 catch-up for those age 50 and older.

Roth IRA contribution limits for 2021 are also \$6,000 with \$1,000 for catch-up contributions.

#### ✓ Interest on Series EE or I Savings Bonds Can Become Tax-Free

When used to pay for education and following certain rules on these bonds, the interest becomes tax-free. The bonds must have been purchased after 1989 by taxpayers who are at least 24 years old in the month before buying the bonds. The bonds must be redeemed to pay for college, graduate school or vocational school tuition and fees. Room and board costs are not eligible expenses. The bonds must be in the name of the taxpayer, not in the child's name. This exclusion is subject to income levels.



#### ✓ Advance Child Tax Credit

Changes in the Child Tax Credit enacted earlier this year will have dramatic effects on an eligible taxpayer's 2021 tax returns. The Child Tax Credit has been increased from \$2,000 per child to \$3,000 for eligible children. The age requirement has also been increased to allow the credit for children under 18 years old (as of December 31, 2021) ...up from under 17 years old previously. Additionally, children under age 6 are eligible for a credit up to \$3,600.

A portion (up to ½ of the credit) was sent in advance monthly payments beginning in July and will continue through the end of 2021.

There are Adjusted Gross (AGI) Income thresholds that will make some taxpayers with high Adjusted Gross Incomes (AGI) eligible for reduced credits or may eliminate them altogether.

These Advanced Child Tax Credit payments will be reported to you by the IRS on Letter 6419. I will need this letter along with your other tax documents to properly prepare your tax return.

#### ✓ There's Still Time to Act Retirement Plan Contributions

The limit on contributions to 401(k), 403(b) and most 457 Plans for 2021 remain the same as in 2020 at \$19,500. If you are age 50 or older, additional catch-up contributions are also unchanged at \$6,500.

## Qualified Charitable Distribution (QCD)

A Qualified Charitable Distribution (QCD) from your IRA can be an extremely effective way to greatly lower your tax bill. The amount of the QCD is not considered taxable income nor is it allowed as a deduction. This strategy could allow you to make a large charitable contribution and still be eligible for the standard deduction (non-itemizing). This could benefit taxpayers that do not have

# Social Security Review

Social Security Benefits are increasing for 2022. Americans who collect Social Security will receive a 5.9% increase in their monthly payouts in 2022. The extra benefits kick in on January 1. Annual increases in Social Security are determined every year based on changes in a component of the consumer price index. Social Security recipients got a 1.3% cost-of-living adjustment in 2021, 1.6% in 2020, 2.8% in 2019, 2.0% in 2018 and 0.3% in 2017. These annual increases are meant to keep up with inflation. The average retiree received a benefit of \$1,565 in 2021, meaning that the average retiree can expect to see a gross increase of about \$92 per month. This will be the largest cost-of-living adjustment in 40 years.

## Social Security Recipients Medicare Premiums for 2022

While it's still uncertain what the standard premium will be for 2022 — it is based on an actuarial formula and is typically revealed in early November for the next year. Early estimates would have most people pay about \$10 per month more for Medicare Part B in 2022 than the \$148.50

per month they are currently paying for 2021.

Social Security benefits are increasing by 5.9% in 2022, which will cover the increase in premiums for most people.



Premiums are increased for higher-income beneficiaries — those with adjusted gross income (AGI) plus tax-exempt interest income of more than \$91,000 if single or \$182,000 if married filing jointly. These beneficiaries will continue to see the income limits

adjust to general price inflation annually.

## Social Security Wage Base Increases

The base upon which working taxpayers must pay the 6.2% Social Security tax for 2022 is increasing to \$147,000. This is an increase of \$4,200 over the 2021 limit of \$142,800.

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**Myth:** All taxpayers with timely filed 2020 tax returns have received their refunds.

**Truth:** Millions of taxpayers are still waiting on their refunds. The IRS has a backlog of almost 7 million individual returns that require manual processing. If you are still waiting for your refund, continue to check the "Where's My Refund" link on the IRS website. Calling the IRS will usually lead you right back to the IRS website.

**Myth:** Social Security income is not taxable.

**Truth:** Partially false! Up to 85% of your Social Security income may be taxed. The IRS uses a formula to determine the taxable amount. The amount of your Social Security benefit that will be subject to tax is based upon other income reported on your tax return. If your income is low enough, your Social Security income is not taxed!

**Myth:** It's easy to write off your gambling losses.

**Truth:** Taxpayers can only claim a deduction on losses equal to or less than their winnings AND they must use their losses as an itemized deduction on Schedule A.



For example, you win \$500 gambling, but you lose \$1,000 in gambling in the same year. Under the rule, you can only claim up to \$500 (the amount of your winnings) in losses on your Schedule A. Even with the \$500 gambling loss deduction, you may not have enough deductions to make using the Schedule A beneficial...thus you claim the Standard Deduction... and lose the \$500 deduction altogether!

Gambling income and losses are among the favorite "red flags" that the IRS looks for when ordering an audit. If you do write off your gambling losses, be sure that you have all your paperwork to back up your claims. Many casinos offer a "profit & loss statement" that will substantiate those activities.

**Myth:** I need to keep copies of my Federal Income Tax Returns for 7 years.

**Truth:** You should keep your Federal Returns for at least 3 years. Some States have longer timeframes for their Returns than the corresponding Federal Returns...check with me to see what I recommend. The IRS has 3 years to bill you for questioned items on those returns. This is also the timeframe that you have as a taxpayer to seek a refund through an amended return. If the IRS can prove that you omitted income of 25% or more on a return, they can go back 6 years...if fraud is found, then there is no limit.

enough non-charitable deductions to qualify them to itemize on Schedule A. Call me to discuss if a QCD will benefit you.

## The qualifications for a QCD are:

The annual limit per taxpayer is \$100,000. This

type of distribution does not directly coincide with RMD's (Required Minimum Distributions), but it does count towards your RMD.

The IRA Account Owner must be at least 70 ½ years old.

It must be a direct transfer from the IRA to the charity. The distribution cannot go to the taxpayer(you) first.

Qualified Charitable Distributions can be made only to public charities that are eligible for charitable contribution deductions under the regular IRS rules.

Contributions to individuals or Go Fund Me accounts do not qualify.





## Third Stimulus Payment (Economic Impact Payment)

The Third Stimulus Payment was sent to eligible taxpayers beginning in March 2021 and are continuing for some taxpayers that were left out earlier in the year for various reasons. I will need the amount you received from your 3rd Stimulus when we prepare your 2021 Federal Income Tax Return in early 2022. This 3rd Payment will be reconciled on your 2021 Tax Return in a similar process as the first two Stimulus Payments were accounted for on your 2020 Federal Income Tax Return. None of the Stimulus Payments are considered taxable income.



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### Your Tax Calendar

- Dec 31** A check mailed today or a credit card payment counts for 2021. Last chance for deductions.
- Jan 18 2022** 4th Quarter 2021 estimated tax payments due.
- Jan 31 2022** W-2s and 1099s for 2021 are due to recipients.
- Apr 18 2022** Tax Returns or extension requests for 2021 due.

*Anytime you have any questions, don't hesitate to call me. I am here for you!*

## Tax Tips For You... Now!

*2022 is rapidly approaching but, there is still time left to complete 2021 mandatory and optional tax related actions!*

### ✓ **Required Minimum Distributions (RMDs) Now Begin at Age 72**

RMDs are required minimum distributions taxpayers must take every year from their retirement savings accounts. These accounts include traditional IRAs, SEP IRAs and employer-sponsored plans such as 401(k)s and 403(b)s starting at age 72.

If you turned age 72 in 2021

and are taking your first RMD, you have until April 1, 2022, to do so. For each subsequent year, your RMD must be taken by December 31. Keep in mind, if you delay your initial RMD until April 1, you'll be responsible for 2 withdrawals that year (one by April 1 and one by December 31), which could result in a larger tax liability. Most taxpayers take their first RMD by December 31. Call me if you have questions about delaying your first RMD to April 2022.

If you're already older than 72, you must take your RMD by December 31 each year.

### ✓ **Charitable Contribution Deduction Expanded for Taxpayers That Do Not Itemize Deductions**

The CARES Act, passed in 2020 in response to COVID-19, allowed a charitable deduction from Adjusted Gross Income (AGI) of up to \$300 for taxpayers (MFJ or Single) that do not itemize but gave a cash (or check) contribution to a qualified charity, with proper documentation.

This deduction has been extended and expanded. The \$300 deduction is still available for 2021 to taxpayers filing as single but, couples filing jointly will be able to take a \$600 (\$300 per

**See "Tax Tips" on Page 2 >**