

Hons Tax Associates June 2021 Tax Newsletter

SURVEY RESULTS (and improvements for next year)

I got 35 answers, thank you all who responded. Below is a summary and what I will improve next year from the answers I received.

Most confusing/ hard this tax season: Only 11% checked “new owner and office location”, so transition was overall good. 23% checked “relation between stimulus & tax return”, 29% were for “others” covering diverse tax situations.

Explain tax return: 61% like their return explained, with 24% feeling they know enough to review themselves.

Simple returns: 93% like traditional drop off and pick up (only 7% for one visit).

Return shows owing: 29% would like direct debit from bank account in tax return and I will offer this solution next year. 34% would like envelope with address to mail check and I will print these next year.

Referrals: 57% would like a \$25 referral discount (34% are not interested) and I will offer this next year. It will apply on the soonest payment after referred person has paid. I would be happy to be recommended!

Tax Newsletters: 54% like them, 37% do not want to think tax after their tax return are done. I will issue Newsletters via MailChimp, like this one, four times or more a year. One can always unsubscribe.

IRS Processing: 14% faster refund than years before, 46% comparable to before for refunds, 4% slower than before, so overall pretty much same as previous years.

Rate services: (3 questions): I got very good marks (average 9.4/10). Thank you! Those of you who answered the survey were basically happy people. I will do the improvements noted above. Also, I will offer full electronic signature (instead of print-sign-scan-email back) to clients preferring to / not able to come to the office / out of state. Returns copies would then only be given to client as pdf (password protected) files.

SERVICES

At some point over the years, I am confident I will be able to save taxes to a majority of you, while being fully compliant with the tax law. This is the value you get from a good tax preparer. I amended previous returns for a few of you when I noticed that deductions or credits had not been claimed by previous tax preparers.

I ask reasonable questions. Through seeing many returns and quite a few IRS letters, also having had my own business for many years, and although never sure or guaranteed, for self-employed people / small business owners, I may be able to pinpoint deductions which at first look may seem exaggerate, possibly overly aggressive positions, and possible IRS audit triggers (we never know for sure about these), also I can ask about usual deductions for self-employed people /small businesses that I don't see being claimed.

For my tax practice to be sustainable I will need to raise my prices an average of 10% next year. Some returns price will be unchanged (can be lower if the tax situation simplifies), some will see an increase of more than 10% if the price was comparatively too low and/or significant additional time was spent getting full tax information. I will always give you the price in front when you bring the documents (subject to no additional unknown tax issues)

TAX UPDATES

Additional refund for first \$10,200 of unemployment benefits not taxable

Most of you in this case have by now received your additional refund (unless IRS kept it for previous tax obligations). A few have not and this is when credits were claimed in the return, their amounts being now modified by the unemployment taxation change. If you are in this case, the only thing you can do is being patient. Consider that IRS had about 12 million returns with unemployment changes to process and issue refunds for.

Child Tax Credit (CTC)

As explained in my previous (May) Newsletter and in summary:

. For tax year 2021, families claiming the CTC will start receiving monthly after July 15 up to \$250/month (to a total of \$1,500: half of \$3,000 credit in tax return) per qualifying child from age 6 to 17 (as of 12/31/2021), and up to \$300/month (to a total of \$1,800: half of 3,600 credit in tax return) per qualifying child under age 6.

. This will be subject of a phase-out for income (refer to previous Newsletter). Before, CTC was up to \$2,000 per qualifying child **under** the age of 17 at the end of the tax year.

. **Important:** If you get CTC, you will need to give me the exact total amount you got in monthly payments to input in your 2021 return (claiming the remaining). If the amount input in the tax return is not correct, it would most likely generate delays in the refund (this is what I saw happening this year for Stimulus 1 & 2).

Above will also apply for Stimulus 3 that most of us got in April-May this year: I will need to input in your 2021 return the exact amount received: Stimulus 3 was an advance on a credit in your coming 2021 return.

Self-employed people

If you are self-employed: schedule C in tax return (which also include single members LLCs): No FICA tax (SS & Medicare employer) is due for employing your under 18 children (also no unemployment tax until they reach 21)

Required Minimum Distributions (RMDs)

They are back, after being halted (at taxpayer's choice) in 2020. Folks 72 and older must take RMDs (amount normally figured by financial institutions). If 2021 is first RMD year, you have till April 1, 2022 to take it. It is usually better to take in during the tax year (before 12/31/2021) so not two RMDs to be taxed on in 2022.

If you are older than 70 ½, and make donations, consider making a charitable donation directly from your traditional IRA distribution: it can count as an RMD and deducts directly from your AGI (instead of an itemized deduction), which can help in many tax situations, including for the state return.

\$300 deduction

The up to \$300 deduction which applied for 2020 tax returns for people taking the standard deduction and for money only (not in kind) donations to charitable non-profits is renewing for the 2021 tax year. Keep track of your money donations!

Tax raises & other proposals

None of below President Biden's proposals have been passed into law. We do not know which will be and if so with what changes. These proposals would not increase tax for taxpayers with income below \$400,000 and would affect very few of us.

- . Top individual income tax rate would increase to 39.6% (from 37%) (would apply for taxable income over approx. \$524,000 single and \$628,000 MfJ)
- . Capital gains and qualified dividends tax would be 39.6% instead of 20% for taxpayers reporting an AGI over \$ 1 Million.
- . Corporate tax rate (C Corps) would rise from 21% to 28% (had been lowered from average 35% previously)
- . The 3.8% Net Investment Tax would apply only for AGI above \$400,000 (now \$250,00 when MfJ)
- . Stepped up basis at inheritance would be repealed in part: now, under the Estate threshold (approx. \$11.7Million individual, \$23.4M MfJ) beneficiary(ies) inherit assets with a stepped up basis of the Fair Market Value (FMV) at date of death and no tax to be paid. Proposal would introduce tax above a \$1 Million capital gain: Estate of the person who passes away would owe tax on the unrealized capital gain (FMV at date of death less basis decedent) above \$1 Million: This would certainly not be straightforward to apply, introducing quite a few issues.
- . And being paid by above tax increase: free education for all from prekindergarten to 2 years of community college (and also the already passed Child Tax credit tax laws as summarized above)