



Dear Client:

Best wishes for a wonderful holiday season and a very happy new year as we move from 2021 to 2022. We appreciate your business throughout the year and look forward to meeting with you in the upcoming tax season.

The IRS has not yet announced when they will be accepting income tax returns in January of 2022, however, it generally is not until later in the month. As a result of the PATH Act, returns which include the Earned Income Tax Credit (EITC) or the Child Tax Credit (CTC or Advanced CTC) will experience a delay in issuing refunds until after February 15th. The refunds generally hit the bank accounts in the last week of February.

A reminder that the 2021 individual income tax return will include a reconciliation of both the third Economic Impact Payment (EIP) and the Advanced Child Tax Credit (ACTC). If you received one or both of these payments it is critical that you include the IRS notices indicating the amount that was received in order to reconcile the payments on the 2021 income tax return. While the amount of the EIP will not affect your refund (and may increase it if you did not receive the full amount in 2021), the ACTC will have the effect of reducing your refund when the 2021 return is prepared.

In this newsletter we have included information to consider for both your personal income tax return and business considerations for the self-employed taxpayer. Review the information provided and let us know if you have any questions. Some of these issues are time sensitive and need to be acted upon by the end of the year.

As always, do not hesitate to contact our office if any of these items raise a question or consideration of your tax situation.

INDIVIDUAL TAX CONSIDERATION FOR 2021

As we reach the end of the year, now is the time to start sorting your tax documents for an on-time filing of your individual income tax return. Following is a listing of items to consider when preparing for the preparation of your individual tax return:

- Note any changes to your marital status, or the birth (or death) of dependent children. For divorced clients, please submit a copy of the divorce decree and child support agreement.
- Did you receive or pay alimony payments? Depending on the date of the divorce, this may no longer be a tax consideration.
- At any time during 2021, did you sell, receive, exchange or otherwise transact any business in any virtual currency?
- What was the amount of the 2021 Economic Impact Payment, include IRS Notice 1444-C which would indicate the total amount received.
- While the mandate for health insurance remains, the penalty for failure to maintain minimum essential coverage on the federal tax return has been eliminated. However, many states still require health care coverage. If your health care coverage is through either the state or federal Marketplace, include Form 1095-A with your tax documents.

- Include all Forms W-2's with your tax documents.
- Include any interest income received on Form 1099-INT.
- Did you have a brokerage account or investments? Include all Forms 1099-DIV and Forms 1099-B with your tax documents.
- If you sold any stock or assets, be sure the initial cost (or basis) is included with the sale documents.
- Did you receive funds from a pension or IRA? Include Forms 1099-R with your tax documents.
- Are you a shareholder in an S corporation or partner in a partnership? Are you the beneficiary of a trust or estate? If so, you will receive a Schedule K-1 for your representative share. We are aware that these generally tend to come later than sooner, so let us know if you are waiting for receipt of a Schedule K-1 and we will extend the individual income tax return.
- If you received unemployment in 2021 be sure to go onto your state website to download the Form 1099-G. Most states have stopped mailing out this form automatically. The same holds true if you received a state refund in 2021 on your 2020 state income tax return.
- Are you receiving Social Security? Include the annual statement from the Social Security Administration. If you have an SSA account, this form is available on their website.
- Include any other miscellaneous income, such as:
 - Gambling winnings
 - Hobby income
 - Legal settlements
 - Income not subject to self-employment tax
- Do you own rental property? If so, include an accounting of the income received and expenses paid on behalf of the property.
- Child and dependent care expenses – include a statement with the provider name and address, tax identification number and amount paid.
- Did you pay education expenses for either you or a dependent? Include the tuition amount paid as well as other expenses for books, computers, internet, room and board. The name and address and the EIN of the education institution is also needed.
- Are you a teacher in grades K through 12, working at least 900 hours a year? Include any out of pocket expenses for materials and supplies purchased.
- Did you receive the Advanced Child Credit (which were issued July 15 through December 15)? Include the IRS Letter 6419 which will provide the total amount paid.
- While many taxpayers will not be able to itemize due to the increased amount of the standard deduction, following are some items to consider which may provide a better tax benefit:
 - Medical and dental costs, including any insurance premiums paid
 - Tax paid, including real estate, state taxes, or personal property taxes
 - Interest paid on a primary or secondary home
 - Points paid on the purchase or refinance of a home
 - Investment interest
- Did you pay on a student loan? Did your employer provide any assistance in payment of the loan? Include the interest statement from the financial institution along with any payments made on your behalf by your employer.
- Include a listing of charitable contributions paid with cash and a separate listing of non-cash donations.
- Did you have a casualty loss as a result of a federally declared disaster area? Provide the total amount of the loss and any payments by your insurance company or government agencies such as FEMA.
- Did you make a contribution to your IRA or other deferred compensation plan? If so, Include Form 5498 with your tax documents.

While not a comprehensive list, this includes some of the more popular tax items we encounter on tax returns. Our office will be sending out organizers by the end of the year. We would appreciate your cooperation in completing the organizer completely. The above listing will help with providing the information needed to file a complete and accurate income tax return. Contact our office if there are any questions regarding the tax information needed.

HERE ARE SOME TAX TIPS FOR NEW ENTREPRENEURS

Have you embarked on a new venture as your own boss? While the launching of a new business is both exhilarating and scary, we are here to help you navigate the various tax requirements for a new business owner.

Choose a business structure

The form of business determines which income tax return a business taxpayer needs to file. The most common business structures are:

- Sole proprietorship: An unincorporated business owned by an individual. There's no distinction between the taxpayer and their business. This business entity does not require a separate tax return, as Schedule C, Profit or Loss from Business, is filed with your Form 1040.
- Partnership: An unincorporated business with ownership shared between two or more people. Generally prepares and files a partnership agreement with the appropriate state agency.
- Corporation: Also known as a C corporation. It's a separate entity owned by shareholders. Articles of Incorporation are filed with the appropriate state agency.
- S Corporation: A corporation that elects to pass corporate income, losses, deductions, and credits through to the shareholders. Articles of Incorporation are filed with the appropriate state agency. Form 2553, Election by a Small Business Corporation, is filed to change from a corporation to an S corporation with the IRS.
- Limited Liability Company: A business structure allowed by state statute which can be treated as a sole proprietorship if only one member or a partnership if two or more members. An LLC can also elect to be treated as either a corporation or S corporation for tax purposes. Form 8832, Entity Classification Election, to elect status as a corporation or Form 2553, Election by a Small Business Corporation, to elect status as an S corporation is filed with the IRS.

Choose a tax year

A tax year is an annual accounting period for keeping records and reporting income and expenses. A new business owner must choose either:

- Calendar year: 12 consecutive months beginning January 1 and ending December 31.
- Fiscal year: 12 consecutive months ending on the last day of any month except December.

Apply for an employer identification number (EIN)

An EIN is also called a federal tax identification number. It is used to identify a business. Most businesses need an EIN if they will have employees, issue 1099's, pay excise or sales tax, or sets up a deferred retirement program. It is important for a business with an EIN to keep the business mailing address, location and responsible party up to date. IRS regulations require EIN holders to report changes in the responsible party within 60 days. They do this by completing Form 8822-B, Change of Address or Responsible Party and mailing it to the address on the form.

Have all employees complete these forms:

- Form I-9, Employment Eligibility Verification U.S. Citizenship and Immigration Services
- Form W-4 Employee's Withholding Allowance Certificate
- Verify any state forms that may also need to be completed

For more information and help

The Self-Employed Individuals Tax Center has information for those who are in an independent trade, business, or profession in which they offer their services to the general public.

Understanding the tax responsibilities that come with starting a business

Small business owners have a variety of tax responsibilities. The IRS knows that understanding and meeting tax obligations is vital to the success of all businesses, especially a new one. IRS.gov has the resources and information to help people through the process of starting a new business.

We are here to help you with the formation or operations of a small business. Contact us to be assured that you are staying in compliance with all federal and state filing requirements.

15 TAX CONSIDERATIONS FOR THE SELF-EMPLOYED

As you are preparing for the upcoming tax season, here are a few items to note that may be deductible on your business return. Now is the time to collect your information. If you have any questions regarding business deductions, contact our office for assistance.

1. Health Insurance

This deduction is conditional, based on whether a self-employed individual is qualified to join their spouse's medical plan. If you do qualify, you can deduct medical and dental premiums for spouses, dependents and children below the age of 27. This deduction is an income adjustment, not an itemized deduction, so it is not necessary to itemize it to claim it.

2. Transportation

A self-employed person may deduct mileage costs for business-related travel using your own car. However, you will need a mileage log to prove the travel expense. Alternatively, you can opt to deduct actual car-related expenses such as gas, oil, depreciation, licenses and so on. If there are five or more cars registered to their business, you will have to go with actual expenses. Regardless of which method you use, the mileage log will be necessary to substantiate your business use. The log should not only include the beginning and ending mileage, but who you met with and the business purpose.

3. Education

If you pay to earn skills that can be used at work, the cost of that education is deductible. This deduction covers tuition, lab fees, supplies, books and transportation to campus.

4. Home Offices

Most self-employed individuals have a dedicated workspace at home. If so, you can claim for the percentage of their floorplan the home office takes up. The deduction may apply to a portion of the mortgage and other direct expenses paid on the entire house. Alternatively, you can opt for a simplified deduction, which allows you to deduct \$5.00 per square foot up to 300 square feet for a maximum deduction of \$1,500.

5. Self-Employment Taxes

One of the most common adjustments is for one-half of the self-employment tax. The deduction reduces taxable income.

6. Retirement Savings

Retirement options for self-employed people may also yield deductions. If the client is signed up for a solo 401K, they can leverage deductions up to \$58,000 (in 2021) on the contributions to that fund. If you are over 50, you can get an additional \$6,500. There are several deferred compensation options available to you which will reduce taxable income. Contact our office for the best plan based on your tax situation.

7. Office Supplies

While they do not seem that costly, expenses from office supplies do add up. Home offices typically require a lot of supplies, from pens and paper clips to paper and ink for printers. Even if you did not use the supplies in the current year, they can still be included on the deduction once receipts prove their purchase. For items that have a shelf-life of longer than a year, you can deduct the cost of the item in the year when it was bought.

8. Business Insurance

Certain insurance premiums can be deducted for self-employed individuals. Business insurance, accident insurance, workmen's compensation, and employee health insurance are all covered under this deduction. Note that the workmen's compensation and employee health insurance are only available to your employees, not to the business owner on the Schedule C. However, a Section 105 plan may provide some tax benefits if you employ your spouse in the business. Contact us for more information on this benefit.

9. Phone and Internet Costs

If a self-employed individual's business relies on the internet, these utilities can also be deducted. If you have a family plan, only expenses related to the business can be deducted as a business expense. If the connection is registered to the company, you may be able to deduct the entire amount of the bill.

10. Loan and Credit Card Interest Payments

If the business has loans registered to itself, the interest on the loan payments can be deducted from the company's taxes. Many people believe that this is limited to a business credit card, but that's not strictly true. If the company uses a personal credit card to purchase something for business use, the interest on the payments can be deducted just the same. If the credit card is mixed use, both personal and business, only the interest expense attributable to the business purchases can be deducted.

11. Start-Up Costs

Up to \$5,000 in start-up costs and \$5,000 in organization costs can be deducted under this schedule. These costs include registration fees and other monetary details that the business must pay to get started as a company. Costs such as research, travel, marketing, and professional fees prior to the opening of the business fall into this category.

12. Business Travel and Meals

In the event that you are traveling for the business, you can deduct the travel expenses, including the cost of meals. For tax years 2021 and 2022, the deduction for a meal purchased in a restaurant is 100%. However, if you are considering using the travel expenses to cover the cost of a vacation, the deductions do not cover travel for a spouse or children.

13. Membership Fees

Some professionals, such as engineers and lawyers, are required to join professional organizations that charge fees. If you pay membership fees as part of the business, they can be claimed as an expense of the business.

14. Advertising

Advertising that helps promote your business can contribute to business expenses, but keep in mind that advertising toward lobbying cannot. Conventions and political parties are also not acceptable for advertising deductions.

15. Qualified Business Income Deduction

This deduction, which is fairly new, allows business owners whose taxable income is less than \$164,900 (on a single return, \$329,800 for a joint return) to claim up to a 20-percent deduction on the lower of the taxable business income or the total taxable income on the

individual tax return. Even if your total taxable income is above the limit, you may still be able to claim some amount of deduction against your taxable income.

Contact our office to discuss these business expenses as well as any other concerns regarding the operations of your business. These business expenses are time sensitive and should be considered prior to the end of the tax year.