

PROVENCHER TAX SERVICE

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Merry Christmas !!

NEW FEDERAL TAX LAWS...?

As I believe most anyone who reads this knows that Congress has been "working" on a (another) LARGE tax law ("**Build Back Better**" Act) for nearly a year. I have been following this moving target of the proposed law the whole time. I have had trepidation about this for the whole year and now it seems to be lingering into 2022. The initial proposals had some potential unnerving provisions in them – like taxing unrealized capital gains each year, amongst others. I'm not bothering to bring up the other unnerving taxes because I think they've died as the cost of the pending Act has shrunk from the earlier \$4 Trillion package down to under \$2 Trillion? In the meantime, I don't want to hold up my annual Tax Newsletter.

ECONOMIC STIMULUS PAYMENTS

The Federal Government rolled out a series of three Economic Stimulus payments to many qualifying taxpayers. Two were during 2020 and a third of up to **\$1,400**, in early 2021 for qualifying taxpayers AND their dependents. Of course, it's never easy to "reconcile" these and they need verification to the 1040 tax return. It was messy handling this reconciliation for 2020. This will once again be required for the possible \$1,400 payments (plus children amounts) for this 2021 tax filing. There are threshold limits – many didn't qualify for this stimulus payment due to high income. Some who didn't receive a 2021 payment due to past high-income tests may indeed now qualify for a tax credit of all or some on your 2021 tax return. The IRS sent out a **Notice 1444-C** to recipients. Once again, I'll be bugging my tax clients for these verifications. BTW – supposedly, if you lucked out and received a payment that technically you were unqualified for the IRS will not take it back. 😊

REVISED FED 1040; SCH 1, 2, & 3!

There's been only some minor tweaking with our beloved 1040 however Schedules 1, 2 & 3 have dramatically expanded from one page to now two pages each. These three Schedules feed into the 1040 and are now looking for much more specific details. Oh, for joy...

NEW FEDERAL TAX BRACKETS & RATES

Your "Federal Taxable Income" (income after all types of deductions) for 2021 is taxed as follows:

MARRIED:		TAX RATES	
\$0	to	\$19,900	10%
\$19,901	to	\$81,050	12%
\$81,051	to	\$172,750	22%
\$172,751	to	\$329,850	24%
\$329,851	to	\$418,850	32%
\$418,851	to	\$628,300	35%
\$628,301	to	To infinity	37%

SINGLE:		TAX RATES	
\$0	to	\$9,950	10%
\$9,951	to	\$40,525	12%
\$40,526	to	\$86,375	22%
\$86,376	to	\$164,925	24%
\$164,926	to	\$209,425	32%
\$209,426	to	\$523,600	35%
\$523,601	to	To infinity	37%

2020 STANDARD DEDUCTION

The 2017 TCJA Federal Tax Law significantly increased the "Standard Deduction" for those who do not "Itemize" their deductions on Sch A, the Standard Deductions for **2022** are as follows: **Married Filing Joint = \$25,100; Single = \$12,550 and Head of Household = \$18,800.** (Those blind or age 65+ get an extra \$1,350 - \$1,700.)

ROTH & IRA PLAN LIMITS FOR 2021 & 2022

Qualifying **workers** can contribute up to **\$6,000** into their traditional **IRA** plans in **2021 & 2022**. Those over 50-years-old can kick in an extra \$1,000, or up to **\$7,000**. Note, for **Roth contributions to be fully allowable for 2022, incomes for couples must be below \$204,000 while those who file single must be below \$129,000. (\$198,000 and \$125,000, respectively for 2021.)**

Note - there are further income restrictions as to whether IRA contributions would be "tax deductible" or not – these are referred to as "**Non-Deductible IRAs**".

401(k), 403(b) & 457 PLAN LIMITS FOR 21&22

For **2021**, participating employee **401(k), 403(b) and 457** retirement plan contribution limits were **\$19,500**. “Catch-Up” provisions for the 50-year-olds and up, allow another **\$6,500**. For **2022**, the maximum contribution amounts are increased to **\$20,500**, plus the “Catch Up” provision.

DEDUCTIBLE MILEAGE RATES

<u>TYPE OF TRAVEL</u>	<u>2021</u>	<u>2022</u>
Business Mileage	56 cents	58.5 cents
Medical Mileage	16 cents	18 cents
Charitable Mileage	14 cents	14 cents

SOCIAL SECURITY UPDATES

Social Security recipients will receive a **5.9% increase** in their benefits during 2022 from 2021 ! Note, however, Medicare Part B Premium monthly costs also increase by \$21.60 - from \$148.50 to **\$170.10** (for lower income recipients). NOTE – the \$170.10 amount increases as your “Modified AGI” increases. Single recipients with this MAGI from 2020 that exceeds **\$91,000** will be larger. Joint tax filers with their 2020 MAGI in excess of **\$182,000** will be larger. There are four more step thresholds above these thresholds that take more & more. The Social Security Administration will send recipients notices of these increases. I hear complaints from clients every year about this “adjustment”. Sorry. Worker’s Social Security “**wage base**” for the “**FICA**” Tax application for 2022 increases to **\$147,000**.

“Early retirees” can elect to receive “**early benefits**” at age **62**; however, the benefits are reduced forever... NOTE - those who elect to collect reduced early benefits AND continue to work between age **62** through **65** must be aware that their (part-time) earnings should **not exceed \$18,960 during 2021 and \$19,560 during 2022**. Once someone has reached full benefit age, it’s OK to earn over these amounts – no income restriction, no penalty.

NEW CHARITY DEDUCTION OF \$300/\$600 !

There’s a new allowable deduction for your charitable contributions for those who DO NOT “Itemize” their deductions on Schedule A. The 2017 tax law changes dramatically INCREASED the “**Standard Deduction**” amounts. As a result, about 90% of taxpayers take this Standard Deduction and only ~ 10% “Itemize” their deductions. Charitable organizations were very unhappy about this, and they projected loss of donations. Congress threw them and the 90% group a bone – **up to \$300** can be deducted for Single tax filers **and NEW for 2021 - \$600 for Joint Tax Filers** – but of course, you have had to have made this contribution / donation.

NEW JUICED CHILD TAX CREDIT

Recent years have seen up to \$2,000 of Federal tax credits for qualifying children. The Federal Government juiced this one up significantly in Covid year 2021. Qualifying children now qualify their parents for **\$3,000**

or if UNDER age 6, **\$3,600**. Beginning in July 2021 and running through December 2021 the IRS has been sending out monthly direct bank deposits into the Parent’s bank account. There are phaseout thresholds that limit how much qualifies. Some may have NOT received some or all allowable amounts when the numbers shake out for 2021. The IRS will send a notice (**Letter 6419**) to the taxpayer by February 1, 2022 with WHO and how MUCH was paid. Clients, PLEASE save these notices and pass over to me.

NEW JUICED DEPENDENT CARE CREDIT

Beginning in 2021 is a much larger tax break for working families and their dependent children under age 13 – MORE families will qualify for the increased tax credit and MORE care expenses will qualify. This Federal tax credit will be 50% of up to \$8,000 of care expenses for one child and up to 50% of \$16,000 for two children. For income qualifying parents this means if they incurred at least these care amounts then their tax credit would be **\$4,000 for one child or \$8,000 for two or more !** This is a huge increase. What’s the “means testing” ? – The full credit is available for taxpayers with up to \$125,000 of AGI. There is a phaseout of the credit but up to \$438,000 of AGI. Those over \$438,000 get zero.

PAPERLESS / PAYMENTS / DocuSign

More and more of our society is moving towards paperless transactions. Our banks are also pushing hard here too, as we all know. Times have changed from processing our tax returns when it was all on paper, signed by the taxpayer and myself as “Paid Preparer”. Virtually all of my tax filings to the IRS (and States) are required to be “E-Filed”. It’s been working well. I like that I get nearly instant feedback from the agencies of “receipt”. Occasionally there’s a hiccup and I get it resolved. **Last year 85% of my clients requested an emailed PDF copy** of their finished tax return package. Only 15% requested a file “paper copy”. Many of these are from very senior clients who do not have a computer or email address. You might be surprised about this but most of these good folks are like my Mother – over 90 years old !

Now, when it comes time for clients to “sign-off” on their tax return and authorize me to proceed to E-File their tax return we go through the drill of getting **Form 8879 SIGNED** and returned to me. It’s been nearly a circus to get this piece wrapped up. Some mail me back a signed copy, some sign and scan back an emailed copy and many now are using their phones to take pictures and send them to me on my iPhone. I’m REQUIERD to have these in hand. I am required to print and save it in your physical folder here in my office. These forms include your “**electronic signatures**” and generated “**PIN**” number from my end. A few of my savvy tech clients apply some sort of magic and use the Adobe PDF software to sign (like DocuSign). Sooo, beginning with this 2021 tax filing year I am embracing a new method of sending clients a secure tax return review-copy along with attached

required forms (like 8879) to be signed and returned via the **DocuSign** method. I suspect there might be some bumps in the road between us to work through this. I may be on a learning curve. I figure it's time to get current with the tech world here.

ELECTRONIC PAYMENT METHODS – More and more clients have ditched writing paper checks. I too now rarely actually write out a real check. I have “auto-payments” set up almost everywhere. Many services I now pay via **ZELLE** or **PayPal**. I too am getting many more paying me for my service through these two methods. I love it. So fast, easy, safe and no fees. Occasionally I'm asked if I take **Venmo** – the answer is **no** (there's a privacy issue there). Payment with both Zelle and PayPal use my email address (and or cell # with Zelle).

PAYMENTS TO THE IRS – (No they don't use Zelle or PayPal.) I'd say about half of you who owe the IRS allow for me to set up “auto-withdrawal” of your balance due that gets pulled from your checking account. I do so and also with all my required **Quarterly Estimated Tax Payments**. I don't have to fuss writing out a check and figuring out where it gets mailed to. That means about half write a check and get it into the mail. Some pay through other online methods. Last year, the IRS changed payment P.O. Boxes from years past and some of you noted this. The IRS is closing more payment P.O. Boxes (or lockbox addresses) beginning January 1, 2022. San Francisco is one that's closing. I am including (as another attachment) IRS Publication 3891 (12 pages) showing an Address Directory and other Electronic Payment options. NOTE that I will always provide your payment address on your tax return filing instructions.

NEW 1099-K REPORTING THRESHOLD...

A very recent new Federal Act – **The American Rescue Act** – includes a reporting requirement on **Third-Party Settlement Organizations** (Think PayPal, Venmo and credit card companies) to report amounts of \$600 or greater to the IRS and those of you who triggered this. This reporting has been going on already for several years but at a much higher threshold - \$20,000 and 200 transactions annually. Every year I see some of my business client's data that includes this 1099-K tax form. The income reported is presumably included in the client's gross income. The business income must be at least this amount or greater. The client income that I have seen have always been greater than what's been on the 1099-K. However, now beginning in 2022, this (intrusive?) reporting will be including any and all from \$600 or more. I think we'll be seeing plenty more of these. I SUSPECT many individuals are “moonlighting” and trading / selling items on the likes of eBay...? Interestingly enough, I have recently been quizzed by two of my personal service providers (not clients of mine) who are spooked by this. Like I mentioned on the topic above, I often pay them via Zelle. It was

mentioned that they may no longer wish to be paid this way... Cash only.... Hmmmm...

ELECTRIC VEHICLE TAX CREDITS !

EV's are sprouting out everywhere ! -- at least here in **Green** California. Tesla's - everywhere I look on the roads. For about a decade now the Federal Government has provided TAX CREDITS up to a possible \$7,500 for NEW purchased “Electric” vehicles. The Federal Government allows this tax credit for up to the first 200,000 of specific vehicles manufactured that meet certain battery capacities (at least 5 kilowatt hours). Sorry, Tesla lovers, they have sold well past that threshold, so those tax subsidies are gone for them. There are dozens of manufactures now jumping on the bandwagon. I can't keep up with all of them but if you are unaware and interested about some, here are some new special Federal Government Tax Credits available for these models that have yet to sell out – The **BENTLEY** (!) Bentayga Hybrid SUV – MSRP = \$160,000 (total battery range if out of gas = 18 miles). Tax Credit = \$7,500. The **Ferrari** SF90 Stradale - 986 HP ! MSRP = \$625,000 ! (total battery range if out of gas = 15 miles) Tax Credit = \$3,501. Really... Federal Government tax subsidies for these vehicles... hmmm!/? So, if you are a new EV owner you need to let me know what Make & Model so we can look up your tax credit. I also get many inquiries if here in California there are “tax credits” ? -- Not on the tax return but there are possible REBATES for “Clean Vehicles” (\$1,000 to \$7,000) go to <https://cleanvehiclerebate.org/eng>.

ESTATE (DEATH) TAX/GIFT TAX CREDIT

The Federal “**Death Tax**” exemption is **\$11,700,000** for **individuals** who may have passed during **2021**. Assuming Congress does not change this law, the **2022** Death Tax Exemption increases to **\$12,076,000**.

Gifts are free from “Gift Tax” rules providing they were no more than **\$15,000** (per person) during 2021. The Gift tax exemption increases to **\$16,000 for 2022**.

REQUIRED MINIMUM DISTRIBUTIONS

“**RMD's**” – **Required Minimum Distributions** are generally from your taxable IRA's and 401(k)'s. As a reminder, the **Secure Act** of 2019 changed the RMD age to **72 beginning with 2020!** (It used to be 70&1/2.) NOTE – any taxpayer who turns 72 during the year can elect to hold off taking their RMD to the following year by April 1st. HOWEVER, there will be a “doubling” of RMD's in that year of April 1st. That might be unpleasant.

IRS & POSTAL “SERVICE”

To little surprise with many, both the IRS and U.S.P.S. “service” is lagging, to say the least. Pretty much every year I hear from about 15 – 20 clients who have an “issue” with the IRS – typically a notice from the IRS with some sort of claimed discrepancy on a recent tax return filing, a refund that hasn't shown up or the client made an error on their tax return which needs an

Amended Tax Return to be filed. Who do they call ? – Me, of course, the IRS’ **“Ghost Buster”**. It’s not been easy. MAJOR delays. What used to get resolved in maybe four months takes nine months or more. Why ? First of all, these agencies are mostly run by humans (no, not monkeys, as some might believe). Where do they (did they) work? In offices – in close quarters. There has been this little **Coronavirus** issue going around, remember!? Well, they too were ordered to stay home, and many chose to quit or early retire. BOTH the IRS and USPS are shorthanded and looking for workers... Sound familiar?? There’s not much I can do at my end except to ask for understanding and patience. Both agencies claim to be underfunded and look towards the Federal Government for MONEY. There are provisions within the proposed BBB Act to get \$80 Billion more dollars over to the IRS to beef up collections and bring in MORE tax revenue than what they receive. The good news here is perhaps we’ll get more “service” agents; however, the concerning news is back to more intrusive audits...

NOTE – The U.S.P.S. has implemented various “cost savings” methods while raising postal prices... Slowing down delivery services and closing some offices. I see this slowness, so we all need to keep this in mind when mailing our documents or payments.

VIRTUAL CURRENCY / CRYPTOCURRENCY

(NOTE I emailed an earlier email blast on this topic on December 12, 2021, so I’ve reduced this portion some to avoid repetition.)-

What is this stuff...!? Definition = “A virtual currency is a **digital representation of value** only available in **electronic form**. It is stored and transacted through designated software, mobile, or computer applications. Transactions involving virtual currencies occur through dedicated networks or over the Internet. They are issued by private parties or groups of developers and are mostly **unregulated**.” I would say, I have read about this in my trusty Wall Street Journal almost EVERY day during 2021. There’s apparently something to this make-to-believe “money”.

Our Federal Government, and many other countries, are NOT too keen with this. Why ? > Illicit activities - drugs, money laundering, trafficking, trading at ungodly profits that are not reported and thus not paying taxes on the profits... Both the Feds and IRS are very interested in following this. So much so that it has been a question on **every tax return** filed – on page 1 of the 1040. We must answer this question. If “Yes” you are involved, then that taxpayer will almost certainly be hearing from the IRS or Feds. **The IRS is making virtual currency a central audit focus**. This is why I have included this interesting and murky topic in my tax newsletter. **For more on trying to wrap your arms around this topic see my attached addendum. (Also sent out earlier)**

NEW CA PROP 19 (Eliminates 58, 60 & 90)

NOTE – This is for California Taxpayers. California voters passed this new Prop 19. It has a “Good” element

to it and a not-so-good element. This new Prop 19 basically wipes out previous Props 58, 60 and 90. Each one of those past Props each had good elements to them. So, for those of you interested in reviewing more on Prop 19 (and a possible repeal)– please see the separate attached document **“CA Prop 19 Update”**.

CALIFORNIA’S #1 AUDIT ISSUE...!?

“Residency Audits” are target #1 ! Most of us know the great song by the **Eagles** – **“Hotel California”** and their famous line at the end **“You can check out any time you like, But you can never leave...!”** There’s a lot of truth to that. It’s no news secret that there are more Californian residents leaving the state – often to Nevada, Washington, Texas or Florida that have no state income tax ! (The other states with no **income** taxes are Alaska, New Hampshire, So Dakota & Wyoming.) California FTB will not consider you gone unless you basically cut all ties to California and with no intent to return. Some people move out but don’t cut all ties. Low and behold some with good income or large capital gains move out and into one of those no income tax states or other low-income tax states. While it’s not illegal to own property in CA while residing in one of those other states, it can present a problem. Usually it’s a home - and has to be a “second home” – like an occasionally visited vacation home. **EXPECT A RESIDENCY AUDIT**. What is the FTB investigating ? How do you prepare to prevail ? See my attached **Residency Check Sheet**.

BUSINESS MEALS 100% DEDUCTIBLE

With the purpose of assisting **restaurants** during difficult pandemic times, the tax code was tweaked to allow a 100% deduction for **business meals** (and drinks) **AT RESTAURANTS** only. This business tax deduction is for 2021 and 2022 only.

MY TAX NEWSLETTER FROM 1982 ATTACHED!

For fun I’ve attached a scanned copy of my original first tax newsletter from 1982 ! This was well before PC’s and word processing. I typed it out on a “typewriter” and then went to the printers. I went door to door in my neighborhoods and dropped them off at my neighbor’s front doors. I did this a few times and upon my return to home I found two calls on my recorder each time! Bingo ! I was off and running 😊. (Note – my “Hourly” Billable rate is now a bit higher than quoted back then ! ha ha.)

CLIENTS:

Custom Tax Organizers will be coming in January.

HAPPY NEW YEAR !! 😊

Chris Provencher, E A