**2021 - the Year of Substantial Tax Breaks for Families with Children and Lower-Income Taxpayers**

**Article Highlights:**

* **Child and Dependent Care Credit**
* **Workers Can Set Aside More in a Dependent Care FSA**
* **Childless EITC Expanded**
* Changes Expanding EITC for 2021 and Beyond
* Expanded Child Tax Credit
* Advance Child Tax Credit Payments

This is an overview of the several tax benefits that were included in the American Rescue Plan Act recently passed by Congress that will impact families with children and lower-income taxpayers during 2021. These include increased child care benefits plus an increased child tax credit, including advanced monthly payments for some.

* **Child and Dependent Care Credit**  
  The new law increases the amount of the credit and the percentage of employment-related expenses for qualifying care considered in calculating the credit, modifies the phase-out of the credit for higher earners, and makes it refundable for eligible taxpayers. For 2021, eligible taxpayers can claim qualifying employment-related expenses up to:
  + $8,000 for one qualifying individual, up from $3,000 in prior years, or
  + $16,000 for two or more qualifying individuals, up from $6,000.

The maximum credit rate in 2021 is increased to 50% of the taxpayer’s employment-related expenses, which means the maximum credit will be $4,000 for one qualifying individual, or $8,000 for two or more qualifying individuals. In past years the credit rate varied from 35% down to 20%. When figuring the credit, a taxpayer must subtract tax-free employer-provided dependent care benefits, such as those provided through a flexible spending account, from total employment-related expenses.

A qualifying individual is a dependent under the age of 13, or a dependent of any age or spouse who is incapable of self-care, and who lives with the taxpayer for more than half of the year.

As before, the more a taxpayer earns, the lower the percentage of employment-related expenses that are considered in determining the credit. However, under the new law, more individuals will qualify for the maximum credit percentage rate. That's because the adjusted gross income level at which the credit percentage starts to phase out is raised to $125,000, whereas it was only $15,000 under the prior law.  Above $125,000, the 50% credit percentage goes down as income rises. It is entirely unavailable for any taxpayer with adjusted gross income over $444,000.

The credit is fully refundable for the first time in 2021. This means an eligible taxpayer can benefit, even if they owe no federal income tax.  To be eligible for the refundable portion of the credit, a taxpayer, or the taxpayer’s spouse if filing a joint return, must reside in the United States for at least half of the year.

* **Workers Can Set Aside More in a Dependent Care FSA**  
  For 2021, the maximum amount of tax-free employer-provided dependent care benefits increased to $10,500. This means an employee can set aside $10,500 in a dependent care flexible spending account, instead of the normal $5,000. However, workers can only do this if their employer adopts this change. Employees should contact their employer for details.
* **Childless EITC Expanded for 2021**  
  For 2021 only, more workers without qualifying children can qualify for the earned income tax credit, a fully refundable tax benefit that helps many low- and moderate-income workers and working families. That's because the maximum credit is nearly tripled for these taxpayers and is, for the first time, available to younger workers and now has no age limit cap.

For 2021, EITC is generally available to filers without qualifying children who are at least 19 years old with earned income below $21,430 or $27,380 for spouses filing a joint return. The maximum EITC for filers with no qualifying children is $1,502.

Another change for 2021 allows individuals to figure the EITC using their 2019 earned income if it was higher than their 2021 earned income. In some instances, this option will give them a larger credit.

* **Other Changes Expand EITC for 2021 and Beyond**

Additional new law changes expand the EITC for 2021 and future years. These changes include:

* More workers and working families who also have investment income can get the credit. Starting in 2021, the amount of investment income they can receive and still be eligible for the EITC increases to $10,000.
* Married but separated spouses who do not file a joint return may qualify to claim the EITC. They qualify if they live with their qualifying child for more than half the year and either:
  + Do not have the same principal place of abode as the other spouse for at least the last six months of the tax year for which the EITC is being claimed, or
  + Are legally separated according to their state law under a written separation agreement or a decree of separate maintenance and do not live in the same household as their spouse at the end of the tax year for which the EITC is being claimed.
* **Expanded Child Tax Credit for 2021**

The American Rescue Plan Act made several notable but temporary changes to the child tax credit, including:

* Increasing the amount of the credit.
* Making it available for qualifying children who turn age 17 in 2021.
* Making it fully refundable for most taxpayers.
* Allowing many taxpayers to receive half of the estimated 2021 credit in advance.

Taxpayers who have qualifying children under age 18 at the end of 2021 can now get the full credit even if they have little or no income from a job, business, or other source. Prior to 2021, the credit was worth up to $2,000 per qualifying child, with the refundable portion limited to $1,400 per child, and a requirement to have at least $2,500 of earned income. The new law increases the credit to as much as $3,000 per child ages 6 through 17 at the end of 2021, and $3,600 per child age 5 and under at the end of 2021. For taxpayers who have their main homes in the United States for more than half of the tax year and bona fide residents of Puerto Rico, the credit is fully refundable, and the $1,400 limit and earned income requirement do not apply.

The maximum credit is available to taxpayers with a modified adjusted gross income of:

* $75,000 or less for single filers and married persons filing separate returns.
* $112,500 or less for heads of household.
* $150,000 or less for married couples filing a joint return and qualifying widows and widowers.

 Above these income thresholds, the excess amount over the original $2,000 credit — either $1,000 or $1,600 per child — reduces by $50 for every $1,000 in additional modified AGI. The original $2,000 credit continues to be reduced by $50 for every $1,000 that modified AGI is more than $200,000 or $400,000 for married couples filing a joint return.

* **Advance child tax credit payments**

From July 15 through December 2021, Treasury and the IRS will advance one half of the estimated 2021 child tax credit in monthly payments to eligible taxpayers. Eligible taxpayers are taxpayers who have a main home in the United States for more than half the year. This means the 50 states and the District of Columbia. U.S. military personnel stationed outside the United States on extended active duty are considered to have a main home in the United States.

The monthly advance payments will be estimated from the taxpayer’s 2020 tax return, or their 2019 tax return if 2020 information is not available. Advance payments will not be reduced or offset for overdue taxes or other federal or state debts that taxpayers or their spouses owe. Taxpayers will claim the remaining child tax credit based on their 2021 information when they file their 2021 income tax return.

The IRS is developing an online portal that taxpayers can use to opt out of the advance child tax credit payments or to notify the IRS of changes in their personal situations, such as the birth of a child in 2021, that will impact the monthly payment amounts. The IRS should be releasing details about this soon.

These are substantial financial benefits. If you have further questions regarding these benefits, please give this office a call.

**Restaurants and Businesses Benefit from Temporary Tax Break**

**Article Highlights:**

* New Business Tax Break
* Restaurant Purchased Meals
* Qualifying Restaurants
* Take-out Meals
* Lavish Limitations
* Taxpayer Presence
* Substantiation

Congress has provided businesses with a temporary tax break as a means of helping the restaurant industry, which has been devastated by the COVID pandemic.

Although the Tax Cuts and Jobs Act eliminated the business deduction for entertainment, it continued to allow a deduction for 50% of the cost of qualified business meals.

As part of its COVID relief efforts Congress is allowing businesses to deduct 100% of business meals during 2021 and 2022, provided the meals are provided by a restaurant.

Recent guidance from the IRS ([Notice 2021-25](https://www.irs.gov/pub/irs-drop/n-21-25.pdf)) defines the term restaurant to mean a business that prepares and sells food or beverages to retail customers for immediate consumption, regardless of whether the food or beverages are consumed on the business’s premises. However, a restaurant does not include a business that primarily sells pre-packaged food or beverages not for immediate consumption, such as a grocery store; specialty food store; beer, wine, or liquor store; drug store; convenience store; newsstand; or a vending machine or kiosk.

In addition, an employer may not treat as a restaurant any eating facility located on the business premises of the employer and used in furnishing meals excluded from an employee’s gross income under IRC Sec 119, or any employer-operated eating facility treated as a de minimis fringe benefit even if such eating facility is operated by a third party under contract with the employer.

Business meals are deductible up to an amount not considered “lavish” (reasonable under the circumstances). Also, the taxpayer (or a representative of the taxpayer) must be present. The representative could be, for example, the taxpayer’s employee, an attorney or an independent contractor who performs significant services for the taxpayer.

A final hoop to qualify for the deduction is meeting the substantiation requirements. You must be able to establish the amount spent, the time and place, the business purpose and the business relationship and names of the individuals involved. Taxpayers should keep a diary, account book or similar records with this information and record the details within a short time of incurring the expenses – a timely kept record carries more weight in an IRS audit than one created months or years after the event occurred, when memory can be hazy. For expenses of $75 or more, documentary proof (receipts, etc.) is also required.

Lastly, individuals who are employees cannot claim a deduction for business meals, even if all of the requirements noted above have been met. This is because the Tax Cuts and Jobs Act suspended the deduction of employee business expenses as an itemized deduction for years 2018 through 2025.

Please give this office a call if you have questions.

**Taxes and Divorce**

**Article Highlights:**

* Filing Status
* Claiming the Children as Dependents
* Child Exemption
* Head-of-Household Filing Status
* Tuition Tax Credit
* Child Care Tax Credit
* Child Tax Credit
* Earned Income Tax Credit
* Alimony

If you are recently divorced or are contemplating divorce, you will have to deal with or plan for significant tax issues such as asset division, alimony, and tax-return filing status. If you have children, additional issues include child support; claiming of the children as dependents; the child, child care, and education tax credits; and perhaps even the earned income tax credit (EITC).

*Filing Status* – Your filing status is based on your marital status at the end of the year. If, on December 31, you are in the process of divorcing but are not yet divorced, your options are to file jointly or to each submit a return as married filing separately. There is an exception to this rule; however, if a couple has been separated for all of the last 6 months of the year, and if one taxpayer has paid more than half the cost of maintaining a household for a qualified child, then that spouse can use the more favorable head of household filing status. If each spouse meets the criteria for that exception, they can both file as heads of household; otherwise, the spouse who doesn’t qualify must file using the status of married filing separately. If your divorce has been finalized and if you haven’t remarried, your filing status will be single or, if you meet the requirements, head of household.

*Claiming the Children as Dependents* – A common (and commonly misunderstood) issue for those who are divorced or separated and who have children is the choice regarding who claims a child for tax purposes. This can be a hotly disputed issue between parents; however, tax law includes very specific (albeit complicated) rules about who profits from child-related tax benefits. At issue are a number of benefits, including the child, child care, higher-education tuition, and earned income tax credits, as well as, in some cases, filing status.

This is actually one of the most complicated areas of tax law, and both taxpayers and inexperienced tax preparers can make serious mistakes when preparing returns, especially if the parents are not communicating well. When parents cooperate with each other, they often can work out the best tax result overall, even though it may not be the best for them individually, and can then compensate for discrepancies in other ways.

When a court awards physical custody of a child to one parent, the tax law is very specific in awarding that child’s dependency to the parent who has physical custody, regardless of the amount of child support that the other parent provides. However, the custodial parent may release the dependency to the noncustodial parent by completing the appropriate IRS form.

**CAUTION** – The decision to relinquish dependency should not be taken lightly, as it impacts a number of tax benefits.

On the other hand, if a court awards joint physical custody of a child, only one of the parents can claim the child for tax purposes. If the parents cannot agree on who will claim the child, or if both actually claim the child, the IRS tiebreaker rules apply. Per these rules, a child is treated as a dependent of the parent with whom the child resided for the greater number of nights during the tax year; if the child resides with both parents for the same amount of time, the parent with the higher adjusted gross income claims the child as a dependent.

These rules take precedence over what a court may intend. For example, say the judge in Tom and Becky’s divorce proceeding rules that Tom, who is required to pay a specified amount of child support monthly, is to claim their child as a dependent on his tax return. But the child lives with Becky more nights during the year than with Tom. Under the tax law, Becky is allowed to claim the child as her dependent, regardless of what the court-approved divorce agreement says.

*Child’s Exemption* – Under prior law, a child’s tax-exemption deduction was generally an issue; the parent claiming the child as a dependent got a deduction for the exemption allowance amount. However, because of tax reform, the tax deduction for such exemptions has been suspended through 2025; although this is no longer an issue for this benefit, a child’s dependency is still a consideration for other tax issues.

*Head of Household Filing Status* – An unmarried parent can claim the more favorable head of household (rather than single) filing status if that person (a) is the custodial parent and (b) pays more than one-half of the cost of maintaining the household that is the principal place of residence for the child (i.e., where the child lives for more than half of the year).

*Tuition Credit* – If the child qualifies for either of two higher-education tax credits (the American Opportunity Tax Credit [AOTC] or the Lifetime Learning Credit), the credit goes to whomever claims the child as a dependent. Credits are significant tax benefits because they reduce the dollar-for-dollar tax bill; deductions, on the other hand, reduce taxable income before the tax amount is calculated according to the individual’s tax bracket. For instance, the AOTC provides a tax credit of up to $2,500, 40% of which is refundable. However, both education credits phase out for high-income taxpayers and effective for years after 2020 both credits phase out between $80,000 and $90,000 for unmarried taxpayers and between $160,000 and $180,000 for married taxpayers.

*Child Care Credit* – A nonrefundable tax credit is available to the custodial parent to offset the cost of child care, provided that the parent is gainfully employed or seeking employment. To qualify for this credit, the child must be under the age of 13 and be a dependent of the parent. However, there is a special rule for divorced or separated parents; when the custodial parent releases the child’s exemption to the noncustodial parent, the custodial parent still qualifies for the child care credit, and the noncustodial parent cannot claim that credit. Credit The credit is a percentage of the expenses and ranges from 35% for lower income taxpayers to 20% for the higher income ones. The expenses used to determine the credit are limited to $3,000 for one child and $6,000 for two or more. Note: A substantial one year (2021) increase in the credit is included in President Biden’s American Rescue Plan.

*Child Tax Credit* – A credit of $2,000 is allowed for each child under the age of 17. This credit goes to the parent who claims the child as a dependent. Up to $1,400 of the credit is refundable if the credit exceeds the tax liability. However, this credit phases out for high-income parents, beginning at $200,000 for single parents and at $400,000 for married parents filing jointly. President Biden’s American Rescue Plan also includes a one-year increase to $3,000 ($3,600 for children under the age of 6).

*Earned-Income Tax Credit* – Low-income parents with earned income (either wages or self-employment income) may qualify for the EITC, which is based on the number of children (all those under age 19, plus full-time students under age 24), up to a maximum of three children. Releasing dependency to the noncustodial parent does not disqualify the custodial parent from using children to qualify for the EITC. In fact, the noncustodial parent is prohibited from claiming the EITC based on children whose dependency the custodial parent has released.

*Alimony* – The tax reforms enacted in late 2017 also impact the tax treatment of alimony. For divorce agreements that were finalized before the end of 2018, the recipient (payee) of the alimony must include that income for tax purposes. The payer in such cases is allowed to deduct the payments above the line (without itemizing deductions); this is technically referred to as an adjustment to gross income. The recipient who includes this alimony income can treat it as earned income for purposes of qualifying for an IRA contribution, thus allowing the recipient to contribute to an IRA even if he or she has no income from working.

Because some of those who make alimony payments will claim that they paid more than they actually did, and because some recipients will report less alimony income than they actually received, the IRS requires that the paying spouse’s tax return include the recipient spouse’s Social Security number so that the IRS can use a computer to match the amount received to the amount paid.

For divorce agreements that are finalized after 2018, alimony is not deductible by the payer and is not taxable income for the recipient. Because the recipient isn’t reporting alimony income, he or she cannot treat it as earned income for the purposes making an IRA contribution.

This revised treatment of alimony also applies to any divorce or separation instrument that is executed before the end of 2018 but modified after that date – if the modification expressly provides that the tax reform provisions apply.

As you can see, some complex rules apply to divorce situations. Please consult this office if you have any questions related to a pending divorce action. Please note that, if this office has been providing services to both parties in a pending divorce, there are some inherent conflicts of interest in providing advice or preparation services to both parties, so this office may be able to provide services to only one member of the former couple.

**Raising Capital for Your Startup: The Basics**

Creating a successful business requires a good idea combined with skill, talent, and ambition. But even if you have all of those elements, you may end up falling short if you can’t raise the capital that you need to move forward.

No entrepreneur wants to think about raising funds. It is hard to ask people for money, and even harder to be rejected. But when you’re trying to turn a dream into a reality, having a plan for how you’re going to raise capital for your startup is just as important as having a great product or service to offer. To make sure you’re fully prepared and put yourself in the best possible position to achieve your goals, you must take time to learn the basics of raising capital. The information below will be a good starting point.

**Do your homework**

Before you begin to investigate how funding works, you need to be completely cognizant of every element of your business. Not only will this preparation help you to answer questions with confidence, it will also make you aware of any shortcomings that you can address prior to seeking investment. No funder wants to put their money into a startup that has not been thoroughly vetted for its potential, and it is your responsibility to ensure that you’ve done all of the research into competitors, the marketplace, and the health of the industry in general. You also want to show that you care enough to have projections in hand and a considered estimate of exactly how much you need to accomplish your goals.

The more clear-cut your plans and the more specific and well-documented your answers, the more confidence you will inspire. Make sure you put in the time and effort needed. You will not only feel more secure as you make the ask but will also be more likely to get what you want.

**Understand who your potential investors are**

Just as there are many different types of investment opportunities, there are many different types of investors. The more you understand who your potential investors are and the different ways of approaching investment, the more you will understand about who to go to initially, and who to turn to afterwards if your initial attempts at raising capital fall flat.

There are several different types of potential investors for startups, including:

* Founders
* Family and friends
* Venture capitalists
* Angel investors
* Single family offices
* Business incubators
* Investment groups
* Crowdfunding

Not all potential investors are right for your business. Some are likely to want to exert more control, some may end up costing you too much in the long run. You may even want to consider going with a simple bank loan instead of involving outsiders. The decision is entirely yours, but make sure that you understand the advantages and disadvantages of each and how they will impact you in the long and short term before moving forward.

**Be ready for your ‘close up’**

When it comes to asking investors for money, the importance of a well-prepared [pitch deck](https://www.entrepreneur.com/article/309491) cannot be overstated. It is the single-most important tool you have to tell your story and justify your ask, and it is completely within your control. You need to make sure that every page is assembled with your audience in mind: After all, you are not trying to convince yourself about the worth of your business idea, you are trying to convince somebody else, so you need to emphasize their goals at least as much as yours.

That being said, there are certain fundamentals that must be included without going into so much detail that you overwhelm. Try to limit your presentation to no more than 15 slides that encompass the essentials on the company. Include a summary of the market and the competition, your goals and your team, your plans for the future and what you need to move forward. These are the who’s, what’s, why’s, when’s and how’s that investors need to make their decision.

**Knowing where to find potential investors**

One of the most important things that you can do when you’re in the run-up to starting a new business is to make sure you have a lot of contacts. The more people you know and impress, the better, as they will be able to help you once you’re ready.

Keep in mind that there are many ways to impress people, and the most effective is often by helping them. Making yourself invaluable is also a way to inspire people to want to return the favor. That doesn’t mean that they are necessarily going to want to put their money into your business. Not everybody is an investor, and even those who are looking for an opportunity may not feel that your business is right for them. Learn to take rejection gracefully, and to understand that a “no” is not personal.

**Identify specialized investors**

Just as some investors are not going to see your business as the right fit for them, there are some for whom you will be exactly the right fit, especially if you are in a specialty business that has proven successful for others. Many investors opt for niche investments, so do your homework and seek out capital from those who have invested similarly — and successfully — in the past.

**The last word**

Finding capital is not easy, so try not to get too discouraged if you don’t find your efforts are immediately successful. Being prepared is a big part of the battle, but so is timing and the understanding that there will be obstacles along the way. As long as you do your part and remain optimistic and diligent you are putting yourself on the right path.

To discuss your funding options and set your business up for financial success, contact our office.

**Tax Issues Related to Renting Your Vacation Home**

**Article Highlights:**

* If You Don’t Rent Your Property
* If You Rent Your Property
* Rented Fewer Than 15 Days
* Personal Use Is Less Than the Greater of 15 Days or 10% of the Rental Days
* Personal Use Exceeds the Greater of 14 Days or 10% of the Rental Days
* If You Sell Your Vacation Home
* If You Sell Your Home

Do you own a second home at the beach, in the mountains, or some other getaway location, or are you thinking about buying one? If so, then you may have thought about the possibility of renting it out. Though many people would never consider inviting renters into their vacation home, preferring to keep it for themselves and their family, doing so can offset some of the expenses related to the property, and you may even reap a tax benefit at the same time. Whichever route you choose to go, knowing all of the applicable tax rules regarding designated second homes helps you get the maximum financial benefit out of your asset, and keeps you from making tax filing errors.

*If You Don’t Rent Your Property -* Depending upon your individual tax situation, a designated second home’s acquisition mortgage interest may be able to be included as an itemized deduction. However, there is a limit on the amount of acquisition debt for a taxpayer’s main residence and one additional home for which the interest is deductible. For a primary residence and second home acquired before December 16, 2017 that limit is $1,000,000 ($500,000 if filing married separate). After December 15, 2017 the limit is reduced to $750,000 (except that debt incurred before December 16, 2017 still falls under the $1,000,000 limit).

Real property taxes on your main and any number of additional homes are also deductible if you itemize deductions when figuring your regular tax, but not for the alternative minimum tax (AMT). However, even though itemized taxes include property tax, state income tax, and certain other taxes, the total amount allowed per year is limited to $10,000 ($5,000 if you are married and file a separate return from your spouse), so the deduction for some of your taxes may be limited.

*If You Rent Your Property* - The tax ramifications of renting out your designated second home are largely dependent upon the amount of time that it is rented out during the year: (1) fewer than 15 days, (2) 15 days or more and your personal use is 10% or less and (3) 15 days or more and your personal use is more than 10%.

* **Rented Fewer Than 15 Days** - When you rent out a dwelling unit that you use as a residence–whether it’s your main home or a second home–for a period that is fewer than 15 days during the year, you do not report the income and cannot deduct any rental-related expenses. However, you are still able to continue writing off eligible mortgage interest and real property taxes as itemized deductions. **Used Personally But for Less Than the Greater of 15 Days or 10% of the Rental Days** – In this scenario, the home’s use would be allocated into two separate activities: a rental home and a second home. Let’s say that the home is used 5% for personal use; then 5% of the interest and taxes would be treated as home interest and taxes that can be deducted as an itemized deduction. The other 95% of the interest and taxes would be rental expenses, combined with 95% of the insurance, utilities, allowable depreciation and 100% of the direct rental expenses. The result can be a deductible tax loss, which would be combined with all other rental activities and limited to a $25,000 loss per year for taxpayers with adjusted gross incomes (AGI) of $100,000 or less. This loss allowance is ratably phased out when AGI is between $100,000 and $150,000. Thus, if your income exceeds $150,000, the loss cannot be deducted; it is carried forward until the home is sold or there are gains from other passive activities that can be used to offset the loss.
* ***Personal Use Exceeds the Greater of 14 Days or 10% of the Rental Days -*** For those whose personal use of the home is more than 10% of the amount of time that it is rented (or more than 14 days, whichever is greater), no rental tax loss is allowed. Let’s assume that the personal use of the home is 20%. As for the remaining 80%, it is used as a rental. The rental income is first reduced by 80% of the taxes and interest. If, after deducting the interest and taxes, there is still a profit, the direct rental expenses (such as the rental portion of the utilities, insurance and any other direct rental expenses) are deducted, but not more than will offset the remaining income. If there is still a profit, you can take a deduction for depreciation of the building, furnishings, etc., but it is again limited to the remaining profit. **End result:** No loss is allowed, but any remaining profit is taxable. The personal 20% of the interest and taxes is deducted as an itemized deduction, subject to the interest, taxes and AMT limitations discussed earlier. Take note that if the rental income becomes less than the business portion of the interest and taxes, the balance of the interest and taxes is still treated as home mortgage interest and taxes.

*If You Sell Your Vacation Home* - Even if you use your vacation home to generate rental income, it is still considered to be a property for your personal use, and that means that once you sell it you are subject to taxation on any gains you realize. By contrast, if the sale results in a loss, you are not permitted to deduct any losses – at least not in the examples we’ve provided above. In some cases, a loss on a property can be broken down between the personal, nondeductible use and the business rental portion, which would be deductible.

*If You Sell Your Home* - When you sell your primary home, you are able to take advantage of what is known as the home gain exclusion, but this is not true of designated second homes. The gain from the sale of a second home is taxable, but eligible for favorable capital gains tax rates in most cases. The only exception to this rule is when the taxpayer has occupied the second home as their primary residence for at least two of the five years immediately before the sale takes place. At no time during that two-year period can the home have been rented. When this is the case and the taxpayer hasn’t applied the home gain exclusion on the sale of another property in the previous two years, the taxpayer is able to take the exclusion. Doing so would allow married homeowners (where both qualify) to exclude from their income up to $500,000 of the home’s gain and single homeowners to exclude home sale gain of up to $250,000, except for depreciation of the home that has previously been deducted.

*Other Issues* - There are certain situations involving designated second homes that are particularly complex, such as homes that are converted from an investment property to a primary residence, or when they were acquired by tax-deferred exchange. In these instances, it is essential that you consult with this office in order to ensure that all appropriate planning is done to provide you with the ability to gain the most benefit.

If you rent out your property and provide additional services such as maid service, or rent it out for short-term stays, the IRS may view that activity as a business operation rather than a rental. When this is the case the tax ramifications are entirely different. Because of this and many other complicating factors and exceptions it would be appropriate to contact this office to review the tax impact of all of your real estate transactions.

**Relocating? How to Do It with Taxes in Mind**

If you’re thinking about moving from your current locale, you’re not alone. Americans are on the move for many different reasons: Remote work is increasingly popular and allows employees to live wherever they have access to WiFi, while tax changes introduced by the 2017 Tax Cuts and Jobs Act (TCJA) limited the important SALT (State and Local Tax) deduction to $10,000 for single and married individuals. That deduction had previously made living in high-tax states less costly for affluent individuals.

When you combine those two factors alone, it makes sense that people are looking to see where the grass may be greener. There’s also a strong possibility that states may begin adding new taxes to make up for budget shortfalls – so, it’s no surprise there may be a significant number of people moving. Some say it has already started, using Florida’s net gain of $16 billion in adjusted gross income since 2018 as proof.

Whether states begin adding new taxes or not, it seems clear that people are not staying put the way that they used to, and many are basing their decisions about where to go on tax considerations. If you have found yourself starting to look at real estate ads in a different state, it is important that you take a 360-degree view of what moving would mean for you. As attractive as it may seem to pick up your things and go to a state with a more appealing tax scheme, there are other things to think about, including ensuring that if you move, you do so in a way that accomplishes your tax goals.

Here are the different factors you need to make sure to include in your decision-making process.

**TAXES ARE NOT THE ONLY CONSIDERATION**

Moving to another community is a shock to the system in more ways than one and moving to an entirely different state will have an even greater impact. Not only do you need to think about the quality-of-life issues involved, but also the implications for those who own multiple homes in multiple states, as they will need to make a choice as to where their primary residence is going to be, and make sure that they can prove that they are compliant. Non-tax-related considerations include:

* Quality of life issues include your proximity to family and friends, familiarity with where all your resources are, access to mass transportation hubs for those who enjoy travel, culture, and climate are just a few things that have a direct effect on your level of satisfaction and enjoyment of life. Moving may leave you feeling isolated and uncertain after years of confidently navigating life from your current address.
* Availability of state-of-the-art medical care is not something to be taken for granted. If you currently live in an area where major teaching hospitals are essentially in your backyard and you are moving to a more remote location, you may find yourself regretting your decision, especially as you get older and the infirmities of age start to appear.
* Different areas of the country have different vulnerabilities to hurricanes, earthquakes and other types of disasters. If you are moving to an area that has a higher risk for any type of weather or naturally-caused damage it makes sense to investigate what your homeowners’ insurance costs are going to be – as well as to think about whether you are really willing to put yourself in the path of nature’s wrath.

THE TAXES WORTH CONSIDERING

If you’ve already included the non-tax considerations listed above and you are still intent on making a move, then it is time to understand what doing so will mean to your economic picture. It’s a good idea to sit down and discuss your plans with your financial advisors long before putting your home up for sale, as you may have second thoughts after thinking about all of the consequences of a move. Among your considerations are:

* There may be more to a state’s taxes then what you are thinking about. States require tax revenue to provide for public services, so though you may think you are considering a no-tax state, there is really no such thing. If they’re not taxing income, they are taxing something else.
* If you receive income from a trust you will need to look into exactly how it is taxed at the state level in the state you’re thinking about relocating to. Every state has its own strategy, and you may not be happy with what you learn.
* If your goal is to gain tax benefits rather than to actually move, you might want to consider taking advantage of friendlier tax laws such as those in Delaware or Nevada. You may be able to relocate your assets in a way that limits taxes and offers confidentiality and creditor protection while staying put where you are. This may or may not be possible depending upon your particular situation, but it may be worth exploring.
* If your compensation scheme includes deferred bonuses or salaries that will be paid out during your retirement, it is important to find out how the state you are considering relocating to treats deferred compensation, and how your specific pay will be treated.

MADE UP YOUR MIND? HERE ARE YOUR NEXT STEPS.

Like everything else in life, relocating to another state and making it your primary residence is not as easy as just deciding to do it. There are essential steps that need to be followed in order to reap the tax rewards that you are seeking. Here are just a few of those steps: it is important that you do your due diligence to make sure that you have complied with everything required of your new home.

* Change your vehicle registration to your new address
* Apply for a driver’s license for your new address
* Register to vote from your new address
* Find out whether your state requires a “Declaration of Domicile” or similar document, and if so, apply for it and file it
* File your federal tax returns from the new address
* Obtain property and casualty insurance at the new address
* File state taxes as a new resident, as well as former state tax returns as a non-resident if you earn any income in that state
* Adjust all banking records, legal documents, and credit card records to reflect your new address
* Move your belongings to your new address
* Change the address on your passport
* Get established with community, professional, religious and social networks associated with the new address
* Establish relationships with medical providers proximal to the new address
* Host family and friends at the new address

Getting established in a new community is a challenge, but it is an important step to ensure that you will be able to prove your state residency and get the tax advantages you seek. Include contacting our office on your to-do list to make sure that you have addressed everything as needed and reviewed and updated your estate plan as well. You may also need to address the particulars of where some of your family members live and go to school to make sure that all of the legal and tax requirements have been met.

**Recordkeeping Tips to Keep the IRS Away**

**Article Highlights:**

* Tax Recordkeeping Tips
* Receipts
* Auto Deductions
* Gifts
* Business Equipment
* Ordinary and Necessary
* Meals & Lodging
* Entertainment
* Home Office

With the ever-increasing complexity of our tax system, it is commonplace for many small businesses to make mistakes with bookkeeping and filing. One way to avoid making errors is to be aware of the most commonly encountered pitfalls. Here are some tips to help keep the proper records.

* **Receipts** **–** Even though the IRS does not require receipts for business meal expenses of less than $75, it is nevertheless wise to hang onto them. There is no better documentation than a credit card receipt since it has all the expense information required. All you need to do is write on the slip the purpose of the event, the individual(s) you were with, and your business relationship with that person or people.
* **Auto Deductions –** Generally, small businesses use either the actual expense method or the optional mileage method of deducting the business use of a vehicle, and both must account for any personal use of the vehicle, including commuting. When using the actual expenses method, the deducible business portion of the expenses is determined by multiplying the total expenses by the percentage of business use, which is found by dividing the business miles driven by the total miles driven. When using the optional mileage method, the business miles are multiplied by the IRS published standard mileage rate, which is 56 cents per mile for 2021 (down from 57.5 cents per mile for 2020). So, regardless of the method used, make sure you keep track of the total and business use miles for the year since it is required for either option.
* **Gifts** **–** Do not overspend on gifts to clients and business associates. The IRS will allow a deduction of only up to $25 worth of gifts to any individual per year. Being too generous will cost you. With only that first $25 per recipient considered a deductible business expense, the rest will be nondeductible. For deductible gifts, be sure to keep a copy of the purchase receipt and note on it the business purpose for making the gift or the benefit you expect to receive, as well as the name of the person to whom you gave the gift, his/her occupation or title, or some other designation that will establish your business relationship to the individual.
* **Business Equipment** **–** Since equipment is considered a capital expenditure, it has to be depreciated. That is why lumping equipment together with supplies is not a good idea. This is true even when you elect to expense equipment purchases under Sec. 179 or claim bonus depreciation. If the purchases are not reported properly, the IRS could rule that the expense was improperly characterized. If that is the case, you would not be entitled to the deduction claimed on your return. There could be other repercussions, leaving you with no current deduction at all.
* **Ordinary and Necessary –** To be deductible, an expense must be ordinary and necessary. An expense is “ordinary” if it is customary and conventional for the taxpayer’s line of business. A “necessary” expense is helpful in the taxpayer’s business; but it need not be indispensable.
* **Meals and Lodging –** When traveling for business, lodging is 100% deductible but the away-from-home meals deduction is limited to 50% of the cost.\* So, if the meals are charged to a hotel room, they must be accounted for separately, and keeping a copy of the statement from the hotel that shows the charges, as well as a credit card receipt or other payment receipt, is advisable.
* **Entertainment at Sports Events and Theaters –** Entertaining customers at sporting events and theaters is commonplace but as a result of the Tax Cuts & Jobs Act, which became effective in 2018, a tax deduction is no longer allowed for entertainment expenses. However, the Act did retain a deduction for business meals that are directly related to or associated with the active conduct of your business. The term “directly related” means that actual business discussions were conducted during the meal and you anticipated a specific business benefit from the meal. The term “associated with” is more liberal and includes meals either preceding or following a bona fide business discussion. In either case, the business deduction continues to be 50%\* of the actual expense. Also remember that business meals must be documented, including the amount, business purpose, date, time, place and names of the guests as well as their business relationship with you.

**\*** However, for 2021 and 2022, the cost of food and beverages provided by a restaurant as a business meal is fully deductible.

* **Home Office Deductions –** There are two methods for deducting the business use of a home. One is the conventional method of prorating the expenses (with some limitations) of the home by multiplying the allowable expenses times the business use square footage divided by the total square footage of the home. The other method, referred to as the simplified method, allows a $5 per square foot deduction (maximum 300 square feet) without having to keep records of expenses. Both methods have the same eligibility requirements.

Every business is unique, so if you need assistance in setting up your recordkeeping system or need further clarification on any of the topics discussed, please call this office.

**Tax Deductions Related to Charity Auctions**

**Article Highlights:**

* Purchase of Items at Charity Auction
* Auction Donor
* Appreciated Property
* Fair Market Value (FMV)
* Unrelated Use
* Contributions of “Use”

It is common practice for charities to hold auction events where attendees will bid upon and purchase items. The questions often arise whether (1) the money spent on the items purchased constitutes a charitable donation and (2) what kind of charitable deduction the individual who contributed the item is entitled to.

The answer to the first question is some, but not all, of what’s paid for the item may be deductible. So, if you purchase items at a charity auction, you may claim a charitable contribution deduction for the excess of the purchase price paid for the item over its fair market value. Fair market value being the amount the item would sell for on the open market when the parties to the sale are aware of all the facts, are acting in their own interest, are free of any pressure to buy or sell, and have ample time to make the decision.

You must be able to show, however, that you knew that the value of the item was less than the amount you paid for it. For example, a charity may publish a catalog, given to each person who attends an auction, providing a good faith estimate of items that will be available for bidding.  Assuming you have no reason to doubt the accuracy of the published estimate, if you pay more than the published value, the difference between the amount you paid and the published value may constitute a charitable contribution deduction.

As to the second question, if you provide goods for a charity to sell at an auction, you may wonder if you are entitled to claim a fair market value charitable deduction for your contribution of appreciated property when the charity will later sell the item. Under these circumstances, the tax law limits your charitable deduction to your [tax basis](https://www.irs.gov/taxtopics/tc703) in the contributed property and does not permit you to claim a fair market value charitable deduction for the contribution.  Specifically, the Treasury Regulations (Sec 170) provide that if a donor contributes tangible personal property to a charity that is put to an unrelated use, the donor's contribution is limited to the donor's tax basis in the contributed property. The term unrelated use means a use that is unrelated to the charity's exempt purposes or function. The sale of an item is considered unrelated, even if the sale raises money for the charity to use in its programs.

Another tax issue that is commonly encountered in a charity auction is when someone contributes the use of their second home or timeshare property. This may come as an unpleasant surprise, but the contributor is not entitled to a charitable deduction for donating the “use” or occupancy of a property. Such an arrangement does not constitute a gift of property. It is merely the granting of a privilege for which no charge is made. Thus, granting a charity the use of property does not constitute a charitable gift.

***Example – Timeshare*** *– Suppose a taxpayer contributes his or her timeshare week at a beach-front resort to a charity auction. There is no deductible charitable contribution since ownership of the timeshare unit was not given, only the use of the timeshare. Even the cleaning fee paid for the maid service when the winning bidder uses the unit would not be deductible since only expenses associated with services personally rendered by the taxpayer are deductible.*

If you have questions related to charitable auctions or charitable contributions in general, please give this office a call.

**Know Where You Stand: Use QuickBooks Reports**

*It’s impossible to have a clear picture of where your business is headed without regularly running QuickBooks’ built-in reports.*

If you’re currently using QuickBooks, you know how it’s transformed your daily bookkeeping practices. You can create sales forms like invoices quickly and actually find them when you need them. Your customer and vendor records are organized and stored neatly for fast retrieval. You can accept online payments, track your inventory, and record billable time.

But if you’re not using QuickBooks’ built-in reports, you’re missing out on one of the software’s most powerful components. While you can look at lists of invoices, sales receipts, and payments, you can’t see in a few seconds who owes you money and how late they are in paying, for example. You’re not able to get an instant overview of who you owe. You can’t call up a customer’s history instantly, and it will take an enormous amount of time to see which of your items and services are selling and which aren’t.

These are just a few of the insights you get from using QuickBooks reports. Beyond learning about your company’s past and present financial states, you can make better business decisions that will improve your future.

**Before You Start**

QuickBooks’ reports are exceptionally customizable, as you’ll see. But before you start creating them, you should see what your general report options are. Open the **Edit** menu and select **Preferences**, then **Company Preferences** (which only administrators can modify). You’ll see this window:

Graphical user interface, application

Description automatically generated

*Before you start working with reports in QuickBooks, you should make sure their global settings represent your needs.*

You can see in the image above that you can control your reports’ general settings. For example, some reports can be created on the basis of either **Accrual** or **Cash**. You can designate your preference here. Do you want the aging process to begin on the **due date** or **transaction date**? How much information should appear when **Items** or **Accounts** are displayed? What additional data should appear on your report pages (**Report Title**, **Date Prepared**, **Report Basis**, etc.)? You can specify your own **Format** or just accept the **Default**.

**Statement of Cash Flows** is an advanced report, one we don’t recommend you try to modify or analyze on your own. We can help with that when the report is needed, which is usually monthly or quarterly.

When you’re done here, click **OK**.

**Learn What’s There**

The best way to familiarize yourself with the reports that QuickBooks offers is to open the **Reports** menu and click **Report Center**. The content here is divided by type (**Customers & Receivables**, **Sales**, **Purchases**, etc.). Click around these lists and use the icons in each box to **Run** the current report, get more **Info** on it, mark it as one of your **Faves**, or view a **Help** file. You can choose the date range before you run it with your company’s own data.

**Customizing Your Content**

We mentioned before how customizable QuickBooks’ reports are. Customization options vary from report to report, but we’ll look at one example here. You’re likely to want to run **Sales by Item Detail** frequently to see what your most popular items are as well as what’s not doing so well. Find it in the **Report Center** by clicking the **Sales** tab, selecting it, and clicking **Run**. If you don’t have a lot of data in QuickBooks yet, open one of the sample files that came with the software (**File | Open Previous Company**).

With the report open, click **Customize Report** in the upper left corner to open this window:

Graphical user interface, application

Description automatically generated

*You have tremendous control over the content that appears in your reports.*

There are four tabs here. Click on each to see what your options are.

* **Display**. Includes options like **Report Date Range** and **Columns**.
* **Filters**. What cross-section of your QuickBooks data do you want to see? Choose a filter, and the middle column will change to reflect your options there. You can add and remove as many filters as you’d like.
* **Header/Footer**. If you want to change the settings you established in **Company Preferences**, you can do so here.
* **Fonts & Numbers**. Contains display options.

When you’ve finished customizing your report, click **OK** to create it. Your modified report format will not be saved unless you click **Memorize** and give it a name.

**Two Kinds of Reports**

You can customize and run most of the reports in QuickBooks by yourself. But there are several that you’ll need our help with, beyond the **Statement of Cash Flows** that we mentioned before. These are standard financial reports, like the **Balance Sheet** and **Profit & Loss**. Ideally, we should be generating these for you on a regular basis so you can get more actionable, deeper insight into your company’s finances. You’ll definitely need them if you, for example, apply for a loan or seek investors.

Please contact us if you want to gain a better understanding of how QuickBooks’ reports can help you make better business decisions. You can’t know where you stand without them.

**July 2021 Individual Due Dates**

**July 1 - Time for a Mid-Year Tax Check-Up**  
  
Time to review your 2021 year-to-date income and expenses to ensure estimated tax payments and withholding are adequate to avoid underpayment penalties.

**July 12 - Report Tips to Employer**  
  
If you are an employee who works for tips and received more than $20 in tips during June, you are required to report them to your employer on IRS Form 4070 no later than July 12. Your employer is required to withhold FICA taxes and income tax withholding for these tips from your regular wages. If your regular wages are insufficient to cover the FICA and tax withholding, the employer will report the amount of the uncollected withholding in box 12 of your W-2 for the year. You will be required to pay the uncollected withholding when your return for the year is filed.

**July 2021 Business Due Dates**

**July 1 - Self-Employed Individuals with Pension Plans**  
If you have a pension or profit-sharing plan, you may need to file a Form 5500 or 5500-EZ for calendar year 2020. Even though the forms do not need to be filed until August 2, you should contact this office now to see if you have a filing requirement, and if you do, allow time to prepare the return  
  
**July 15 - Non-Payroll Withholding**  
  
If the monthly deposit rule applies, deposit the tax for payments in June.   
  
**July 15 - Social Security, Medicare and Withheld Income Tax**

If the monthly deposit rule applies, deposit the tax for payments in June.

**July 31 - Social Security, Medicare and Withheld Income Tax**  
  
File Form 941 for the second quarter of 2021. Deposit or pay any undeposited tax under the accuracy of deposit rules. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until August 10 to file the return.