

Our New Office Procedures For the Tax Filing Season

Few people dislike change more than accountants. Our nature is to put processes in place that are efficient and simple to use, then leave them that way forever. Once we have a system that works, we don't want to change it. All of us have heard the expression "if it ain't broke, don't fix it."

Sometimes we are forced to change in order to address our changing circumstances or to deal effectively with the changing world around us. Such is the situation we find ourselves in currently.

COVID is real. It is still here. It has not gone away. Recently we were told that a long-time client had lost a child due to COVID. It is always sad when clients share their losses with us, and this news only reinforced the need for continued precautions due to COVID.

Our staff is like a family. We spend many hours together working toward common goals. We often discuss our families, our weekends, and our outside interests with each other. This has helped us to come together as a staff and become a close-knit group, a group that I want to protect as much as I can.

The desire to protect our work family from illness and keep them healthy has led us to make changes to our procedures for the upcoming income tax filing season.

The biggest change for this year is that we are not doing any in-person meetings this filing season. We prefer that our clients scan their documents

and upload them to our secure client portal. We realize not all of our clients have a scanner available to them. For clients who do not have a scanner, we are still allowing them to drop off their information at our front counter; however, there will not be anyone available for in-person questions. If you have questions when submitting your documents, we will be happy to address them in a follow-up phone call.

We also offer internet meetings utilizing Zoom, a program that allows us to meet face-to-face on our computer monitors. It is a very effective alternative to the in-person meeting. You simply schedule a meeting with our front desk personnel, and they will send you a link to join the meeting. Once you and our staff member have both clicked on the link, you will be able to see each other and talk face-to-face.

When submitting your documents, we ask that you accumulate your income tax records and submit them all at once. Last year, a number of clients uploaded documents to our portal every time they received one in the mail. This is very inefficient and causes the need to handle your file many times. Additionally, we are unaware when you are finished submitting your information. This can cause us to finish your returns before all the documents have been received or to wait indefinitely to determine whether we may finish. This often leads to errors and unnecessary inefficiency.

This year all clients will receive a digital copy of their returns in their client portal. This is will be our standard method of delivery going forward. We will no longer be printing and assembling a paper copy of your tax returns as a standard procedure.

There will be exceptions of course, as in the case where a certain type of tax return is not eligible for the electronic filing process.

Digital copies may be printed from your portal an unlimited number of times. They will remain in your client portal for a period of six months before they expire.

If you need a paper copy of your return, please request one when submitting your data. Due to the fact that it takes significant time to process and assemble a set of paper income tax returns, additional time charges will apply.

This year we will be closed to the public on Wednesdays! Many of our clients commute long distances every workday. In an effort to make our hours more convenient to our clientele, we are opening from 8 am until noon on Saturdays.

Our hardworking staff has agreed to work Saturday mornings if they can have one day during the week off. We have chosen Wednesday to be that day. We will not be answering our telephones nor opening our doors on Wednesdays.

We need your e-mail addresses. Many new technological procedures require an e-mail address to function properly. Our client portals are linked to your e-mail address. If you prefer digital newsletters to paper ones, we would be happy to send our quarterly newsletters to you via e-mail. Simply call us with your e-mail address or e-mail us at frontdesk@jgeorgecpa.com to indicate your preference.

We realize that most of our clients are used to the procedures that have been in place since 2014. The world is changing, and we have to change or we will get left behind. We ask your understanding and hope these new procedures will better serve you well into the future.

Garage as a Home Office

Do you claim a tax deduction for a home office?

Should you include or exclude your garage space in your calculations of business-use percentage?

Ronald Culp earned an office deduction for 78 percent of his home. That's a nice percentage, but what's really interesting is how the court looked at Mr. Culp's home in deciding that 78 percent business use.

Here's how the court made the computation that produced the 78 percent business use of Mr. Culp's home:

The court counted the garage as office space because it could find no basis in law or fact for excluding it. (The garage held two printing presses and a large paper cutter that were integral to Mr. Culp's business.) Regarding the utility room in the basement where the water heater and furnace were located, the court said that this space failed the exclusive business-use standard for the home-office deduction and that such space counted as personal space.

The attic, which measured 1,128 square feet, contained only 100 square feet of usable space. The court ruled that the other 1,028 square feet were not functional, because that footage was not accessible due to the slope of the roofline and/or the lack of flooring.

Observation. The printing took place in the garage, but the IRS said that such space was not usable space, and the IRS did not want it counted in the calculations. The taxpayer and the court agreed that the space should be counted in the calculations. Will this be true for other garages?

The two-garage case. In an effort to save time, the court tried two separate day-care cases together. Each case involved the use of a garage. In both of these court cases, the IRS excluded the garages from its computations. The court took the opposite view. First, it included both garages in the business-use-of-home calculations. Although it found that one garage met the requirements for the home-office deduction and one garage did not, the key point is that both garages were included in the calculations.

In conclusion, we see in these court cases that the IRS often excluded the garages, whereas the courts were eager to include them. Since you start any disagreement over your tax return with the IRS, this should work to your advantage.

You might think that the rules are a little unclear in this area. That's true. The science involved in tax law is

finding cases, rulings, procedures, and publications that support your position. The art form is putting your spin on the deduction. That's all you can do when neither the law nor the regulations give clear advice.

Required Minimum Distributions

Required minimum distribution (RMDs) were waived for tax year 2020 only, so don't forget to take your RMD for 2021 by Dec. 31, 2021. If you turn 70½ after 2019, you must begin taking RMDs from your traditional IRA by April 1 of the year following the year you reach age 72. For example, if you turned 72 in September 2021, you can either take your 2021 RMD in 2021 or you can wait until April 1, 2022. However, you must take your 2022 RMD by Dec. 31, 2022, which means you'll have two RMDs to report on your 2022 return if you wait.

If you fail to take your RMD, you're subject to a 50% excise tax on the amount not distributed. Don't panic though. You can ask the IRS to waive the tax due to reasonable error if you take steps to remedy the shortfall. Contact our office and we'll explain what needs to be done and prepare the necessary paperwork.

Charitable Contributions

Ordinarily, if you choose to claim the standard deduction, you cannot deduct your charitable contributions. Good news though, if you don't itemize deductions for 2021, you may deduct up to \$300 (\$600 if MFJ) on your 2021 tax return for cash contributions made to most charitable organizations.

If it's better for you to itemize deductions, you can elect to apply a 100%-of-AGI deduction limit for cash contributions made to most charitable organizations during 2021. Without this election, the usual percentage limit applies (normally 60%), and the nondeductible amount carries over up to five years. We can discuss which AGI limit is best for you based on your specific facts and circumstances.

Remember to obtain an acknowledgment letter

from the charity before filing your return and retain a canceled check or credit card receipt for contributions of cash.

2021 Year-End Tax Strategies for Marriage, Kids, & Family

If you are thinking of getting married or divorced, you need to consider December 31, 2021, in your tax planning.

Also, do you give money to family or friends (other than your children, who are subject to the kiddie tax)? If so, you need to consider the zero-taxes planning strategy.

And now, consider your children who are under age 18. Have you paid them for work they've done for your business? Have you paid them the right way?

Here are some strategies to consider as we come to the end of 2021.

1. Put Your Children on Your Payroll

If you have a child under the age of 18 and you operate your business as a Schedule C sole proprietor or as a spousal partnership, you absolutely need to consider having that child on your payroll. Why?

First, neither you nor your child would pay payroll taxes on the child's income. Second, with a traditional IRA, the child can avoid all federal income taxes on up to \$18,550 in income.

If you operate your business as a corporation, you can still benefit by employing the child even though both your corporation and your child suffer payroll taxes.

2. Get Divorced after December 31

The marriage rule works like this: you are considered married for the entire year if you are married on December 31.

Although lawmakers have made many changes to eliminate the differences between married and single taxpayers, in most cases the joint return will work to your advantage.

Warning on alimony! The TCJA changed the tax treatment of alimony payments under divorce and separate maintenance agreements executed after December 31, 2018:

- Under the old rules, the payor deducts alimony payments and the recipient includes the payments in income.
- Under the new rules, which apply to all agreements executed after December 31, 2018, the payor gets no tax deduction and the recipient does not recognize income.

3. Get Married on or before Dec. 31

Remember, if you are married on December 31, you are married for the entire year.

If you are thinking of getting married in 2022, you might want to rethink that plan for the same reasons that apply in a divorce (as described above). The IRS could make big savings available to you for the 2021 tax year if you get married on or before December 31, 2021.

You have to run the numbers in your tax return both ways to know the tax benefits and detriments for your particular case. But if the numbers work out, a quick trip to the courthouse could save you thousands.

4. Make Use of the 0 Percent Bracket

In the old days, you used this strategy with your college student. Today, this strategy does not work with the college student, because the kiddie tax now applies to students up to age 24.

But this strategy is a good one, so ask yourself this question: Do I give money to my parents or other loved ones to make their lives more comfortable?

If the answer is yes, is your loved one in the 0 percent capital gains tax bracket? The 0 percent capital gains tax bracket applies to a single person with less than \$40,400 in taxable income and to a married couple with less than \$80,800 in taxable income.

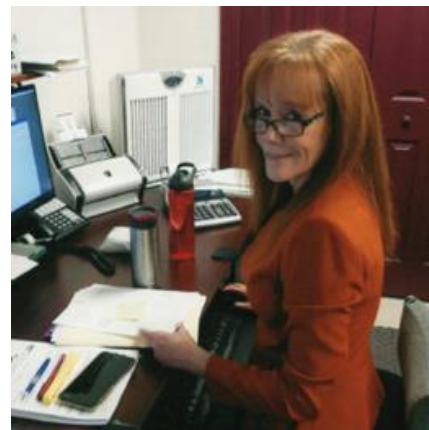
If the parent or other loved one is in the 0 percent capital gains tax bracket, you can get extra bang for your buck by giving this person appreciated stock rather than cash.

Example. You give Aunt Millie shares of stock with a fair market value of \$20,000, for which you paid \$2,000. Aunt Millie sells the stock and pays zero capital gains taxes. She now has \$20,000 in after-tax cash to spend, which should take care of things for a while.

Had you sold the stock, you would have paid taxes of \$4,284 in your tax bracket (23.8 percent x \$18,000 gain).

Of course, \$5,000 of the \$20,000 you gifted goes against your \$11.7 million estate tax exemption if you are single. But if you're married and you made the gift together, you each have a \$15,000 gift-tax exclusion, for a total of \$30,000, and you have no gift-tax concerns other than the requirement to file a gift-tax return that shows you split the gift.

Employee Spotlight



Stacie

Stacie is our Entity Specialist who performs bookkeeping, payroll, tax, and other services for our business clients and takes pride in providing the best customer service possible.

She lives in Frederick with her two "boys," Ajax (a Norwich Terrier) and Loki (a Bichon mix). She has two grown daughters, the eldest of whom is recently married and lives in Frederick, while the other is living and working in the San Diego, CA area. She loves to cook (and eat!) and enjoys reading and playing the piano.