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Dear Clients,

We hope you had an enjoyable Thanksgiving and are getting ready for the holidays and a great new year! We all deserve a great 2022!

It's been a couple of years of dramatic change and stress for everyone. We hope you and your family are well and we hope to return to whatever our new normal is. While a few of us here got Covid, none of us experienced significant medical issues. However, outside of medical issues, Covid was particularly cruel to small businesses, tax professionals and the IRS.

We have been in a perpetual state of uncertainty. The rules we use to guide our clients have been a moving target. We evolved as we adapted to stay in business. We worked remotely when needed, installed a new online filing system, SmartVault, and added a fully paperless technology to sign most tax returns. If you would like access to your personal SmartVault file, to securely send or view files, please just let any of us know. There is a link on our website under "Client Resources" for those who have already set up access to their information.

It's been hard to attract well rounded accountants for a long time. With all the tax changes and stress in our industry, many professionals have found it easier and more rewarding to change specialties. As a result, many firms were forced to close or merged with much larger firms. There is a widening trend of more people leaving than entering our profession.

While every case is different, with all the changes and higher costs, it's reasonable to expect fees to go up about 10%. Our new minimum fee for a brand new client is $750 per year, and we are sold out for 2021 returns. We are grateful for your referrals, but we can only start taking new clients again in May of 2022.

The IRS was also hammered by Congress with new responsibilities. Unlike a private business, they have difficulty evolving fast enough to keep up with the changes and are frustratingly behind. They still have tractor trailers full of mail from taxpayers that remain unopened for a year or more.

**For 2020 returns, Congress kept changing the rules after returns were filed.**
**We will be reviewing them again when we prepare your 2021 return for these changes.**
***Please help us by checking if you received the refunds you expected.***

For 2021 there have been so many proposed changes. Very little actually became law, and most still remains up for debate. The result is that we do not know what to expect and are concerned that the rules will come out retroactively after the regular tax filing season again.

Many tax returns will look different this year. Retired clients may not have taken required distributions from retirement accounts in 2020. For 2021 RMDs were back, and income and tax liability will have grown. This may also cause higher Medicare premiums.

Some clients took Qualified Covid distributions from retirement plans in 2020 and spread the tax out over three years. While there may not have been a new distribution in 2021, tax may be due on 1/3 of the 2020 distribution. For these clients, there remains an opportunity to pay the retirement plan back. This can be complex, please talk to us about it.

**To prepare your 2021 return we will need more help than normal from you…**

We need to know how much you received from the third Economic Impact Payment, also known as stimulus 3. This came out early in 2021 and could have been as much as $1,400 for each taxpayer and dependent, but was phased out with income of $75k for single filers and $150k married taxpayers. If you did not receive stimulus 3, you can still qualify based on your 2021 income.

We will also need to know how much you received in Advance Child Tax Credit Payments. These were as much as $300 per month per child beginning in July 2021. Income limits applied here as well and some taxpayers opted out of receiving these in advance.

We may need you to set up an account with the IRS where you can view your information.

*https://www.irs.gov/payments/your-online-account*

Once set up there is an option to allow us to view your information as well. As of today, it's not working but the IRS claims it will be fully functional by mid-January. If needed, we can have you sign a paper Power of Attorney for the IRS so we can access your information directly.

Many payers are only issuing 1099s online. Please consider if you collected unemployment or any income from a new source so that we know what to expect and to help get these forms.

***With all these changes, please rest assured, that we are still the same humans and have not been replaced with computers yet. We will continue to provide a high level personal service and help you through changes, "old school" as we have in the past.***
***No one should be afraid that these changes will cause them stress.***
***We remain here and available for you.***

***When our firm was founded 30 years ago, if someone said, "taxes are a redistribution of wealth" it would have been considered rude. Now redistribution is an official policy.***

There is another change in our industry that is growing. We traditionally encourage and help our clients excel and achieve greater financial success each year. Now, with so many new social policies, we need to be sensitive with higher income causing a greater loss in benefits. We give politicians the benefit of doubt, and assume that it's all well intended, but both parties have added giveaways to selected groups of people in the name of solving income inequality.

However, our view is that both parties have and are currently creating greater and permanent inequality by discouraging the pursuit of greater success. There are so many factors and paths, but a family with income of $60k may be getting $40k of benefits and can easily go backwards if they earn more. That same family, should they earn $80k may lose most of those benefits. It's uncomfortable as we assist clients in deciding not to take a promotion, or to even work, or to build their wealth, in reasonable fear of losing more than they gain. Politicians are drawing lines and encouraging people to stay over or under them, dividing us, and discouraging some from crossing over from the "have-nots" to the "haves".

*<u>Sample of benefits that are at risk if your income rises:</u>*
*Stimulus payments, earned income credit, child tax credit, rental assistance, subsidized healthcare, child care credit, higher Medicare premiums based on income, contributing to an IRA, American Opportunity credit for college, retirement savers credit, food stamps, tuition deduction, drug benefits, adoption credit, subsidized or forgiven student loans, school lunch, college financial aid, discounted drug benefits and more to come.*

Without commenting on the social programs themselves, we feel there is a reasonable solution. For many of these programs, like the recent stimuluses, the government offered them to the masses but jumped through hoops to deprive the top few percent from them. They should have simply offered them to everyone. We feel the effort of excluding a small percent likely cost more than it saved and discouraged success while it should have embraced it.

If our politicians thought these programs are worthwhile,
then let people have better access to them without penalizing them.

It would seem that inequality will naturally grow as we mature as a country. The simple math demonstrates that once you have more than you need, your fortune will grow, increasing the divide. We want to teach and encourage everyone to get on the right side of the equation, and not discourage them. For some, it's about spending habits while for others it may take a generation, but with the right policies in place more people will make it!

## LATEST NEWS – HOT OFF THE PRESS

The infrastructure bill was signed with very few tax law changes. For individuals, the most relevant is additional reporting requirements regarding crypto assets. However, in the Build Back Better bill, still being negotiated, there are a lot of proposals. We can't predict if or when this will be finalized, and what's in it, but here is a summary of what is in and out as of today.

<u>Higher tax rates</u> by 5% on income in excess of $10 million and 8% on $25 million for individuals and $200k and $500k in Trusts. Not included are the threatened higher regular tax rate of 39.6% or higher rates on dividends and capital gain tax.

<u>Expanding Affordable Healthcare (Obamacare) taxes</u>. In the news recently, Biden was accused of avoiding $500k in tax. In 2017, after Vice President Biden left office, he had a S Corporation "Celticcapri Corp" with almost $10 million in profit from writing, appearances and speeches. He only took $145k of salary, subject to all the normal taxes, and the balance of over $9 million as S Corp dividends. We use this strategy to avoid paying the 3.8% Obamacare taxes, but not to such an extreme. Most tax professionals would argue this was unreasonable and his salary should be higher leading to more tax.

Ironically, as President, Biden now claims this is unfair and both types of income should be fully subject to the 3.8% Affordable Healthcare Taxes! It's just more of the same… Trump, the real estate guy, changed the laws to make it less appealing to own a home! With enough time we can explain how every president since Regan has raised our taxes!

<u>Limiting business losses</u> as well as additional <u>restrictions for contributing to retirement</u> accounts. Poorly overlapping tax rules allow for backdoor 401k and IRA contributions. This unintended loophole may be closed or limited due to income levels. Roth conversions may also go away, but not for 10 years.

**On the positive side**, they have proposed <u>retroactively increasing the State And Local Tax</u> (SALT) limit from $10,000 to $80,00 per tax return. This would be great for many of our clients if it actually goes through! Also, all the proposals to change the Estate tax laws evaporated.

As the days tick on by, it becomes less reasonable that the IRS will be able to implement these changes on time for the 2021 tax filing season. The IRS would need to interpret the law, write it in English, propose tax forms, update their computers, and then allow time for tax software providers to catch up. It would seem at this point that changes in the law now for 2021 would create a delay in preparing returns – not that it would stop any politician from trying…

We are here for you – please feel free to connect with us.
Happy Holidays!

Bob Saunders, CPA