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April 2022

Dear Clients and Friends,

With the initial tax season deadline behind us we have some reflections to share.

First and foremost, we thank you for using our services. We appreciate you and will continue to work hard every year to earn your business.

This was the toughest tax season ever. The deadlines were designed to allow 13 weeks to prepare individual tax returns. Due to changes in the law over the last decade this was reduced to about 10 weeks. This year, the government Covid backlog had a domino effect, delaying everything and we only had 6 weeks to complete what we struggled to do in 10 or even 13.

On the positive side, it could have been worse… Regardless of the merits of President Biden's Build Back Better plan, with all of its retroactive changes, had that gone through, tax season might only be starting now.

Accountants in our field typically retire on the eve of major tax reform. The frustration of constant change in the law, as well as the hardship the season does to their personal lives, individual CPAs have shifted to other areas of accounting and many firms have closed. Actual knowledge and skills are becoming more precious and harder to find.

For simple tax returns, mindless technology services are satisfying some of the demand. This may be fine for someone with just a W-2, but there is no understanding or reasonableness check. There is also no creative thought toward taking advantage of all opportunities. Our tax system simply grows too fast and is too complex for this to be effective for more than a basic return.

<u>Our firm is bucking the trend and doubling down on providing high level personal service</u>. We have evolved dramatically and internally are barely recognizable from just a few years ago. We will continue to invest in providing high quality and efficient service. It will continue to be more expensive, and we are not for everyone, but our plan is to remain a local leader in the industry for people and businesses who need or appreciate a higher-level service.

2021 tax returns were very different than 2020 returns. Incomes were higher. Required distributions from retirement accounts were back. Many companies withheld dividends in 2020 and caught up in 2021 while mutual funds paid out unusually large taxable distributions.

Our software provider, one of the nation's largest, struggled keeping up and had technical communication errors in transmitting returns to several states and localities including New York City. The most common, for our clients, was NYC thinking residents were claiming to be nonresidents. We tried to identify and proactively resolve this. If you receive a notice or your refund was different than expected, please let us help.

If you were affected by hurricane Ida, estimated payments were allowed to be paid late, but the IRS did not provide a way to adjust the interest computation. We are expecting a lot of small notices on this issue as well.

Many clients that typically got a refund from NY, owed for the first time. This was because NY raised their highest tax rate on April 19,2021, retroactively to January 1, 2021. The top rate went from 8.82% to 10.9%. If you received a bonus prior to the change, or your employer did not adjust the withholding rate, you may have ended up not having enough tax withheld.

Covid-19 caused many employees to work remotely and move states, but varying state and city rules are trying to keep their tax dollars regardless of where they live or actually work. NY leads the nation in clawing back the tax and other states like AR, DE, NE, PA and MA have followed suit. With inconsistencies in state laws, a taxpayer can end up doubling their state income tax instead of eliminating it.

Taxes can feel "creepy", meaning each year they seem to creep up a bit more. This can be true, especially in growth years. As income grows, wages typically have the same average withholding rate, while the incremental tax bracket goes up. In a typical situation, the new additional dollars earned will have tax withheld at 22% while the taxpayer is in the 35% bracket, so they are running short 13% on the higher income. Also, while mortgage payments may remain the same, each year the amount of interest is less, so there is a lower deduction, and taxes creep up.

Do you have an inherited IRA? The IRS has changed their position, a second time, more than two years after the SECURE Act passed. Prior to the act, IRA beneficiaries, other than a spouse, could stretch out the taxation by taking Required Minimum Distributions (RMDs) over their lifetime or take it all out within five years. The SECURE Act eliminated the ability to stretch out the taxation, but raised the five-year rule to ten years. The IRS originally took the position that even with the ten-year rule, RMDs would be required. Professionals quickly argued that was not the intention of the law, nor how it was written, and the IRS agreed, reversing their position, and said no RMDs would be required.

In a very late about face, the IRS is now taking the position that RMDs were required beginning in the year of death. Without further guidance, this could mean penalties for not taking them in 2019, 2020 & 2021. We are recommending waiting for now as we are hoping for new guidance, even SECURE Act 2, but be prepared to catch up on RMDs before the end of 2022 if nothing changes.

Secure Act 2.0 passed the House with overwhelming bipartisan support. You would think that makes it obvious to pass the Senate, but there is a tiny rumor that our politicians don't get along and make everything more complex. Hopefully this will address the RMD issue. Other areas included in the house bill are: increasing the age for starting RMDs, increasing the amount you can contribute to retirement account as you get older, and higher percentage 401(k) default options unless the employee elects something smaller.

During the Clinton administration, with the help of Senator Roth, the government actually came up with a great idea, Roth IRAs. There are many fine details, but here are the major differences:

Event	**Traditional**	**Roth**
contributions	tax deduction lowers income	no deduction
growth & income	tax deferred	tax free
distributions	taxable at regular rates	tax free

From the taxpayer side, this is a win because it is an extra option. Nothing was taken away and it provided many taxpayers with an option. From the government side, it was also a win. Each time a taxpayer chooses Roth over Traditional, the politicians collect more tax now, and are not thinking about the loss of revenue decades later when the taxpayer distributes the funds.

Roth conversions are a great planning consideration. It's a semester of learning, but it is when you take a traditional IRA and convert it to a Roth and pay the tax now instead of later. This is an example of a technique we use in our fall planning meetings when appropriate. These conversions are home runs for current politicians. Clinton kicked it off with a sale allowing taxpayers who converted to pay the tax off interest free over four years. Bush also had an incentive program, both programs were taxpayer optional and raised a lot of funds for the treasury.

SECURE 2.0 is following this lead and requiring the higher contributions, by older taxpayers, to be in this format. They are also going to allow employer contributions to be in Roth format, which will be added to an employee's wages now instead of taxable when distributed.

Another new law would require modern payment processers like Venmo, Etsy, Poshmark, & PayPal to issue 1099s beginning in 2023 for 2022. This is not a change in how taxes are computed. If you have business income, it's always been taxable regardless of how you are paid. This is just to improve compliance. This is not intended for personal and non-business matters and they are working on ways to delineate those transactions. More details to follow on the reporting.

If you do sell items originally purchased for your personal use, for less than you originally paid, it is not taxable or deductible. Deductions and losses are only permitted if you are engaged in an activity that was intended to make a profit. However, profit on a personal item is taxable. Each item stands on its own and cannot be offset by other personal items sold at a loss.

Nothing surprising here… President Biden and a group of Democrats are pushing for tax hikes on upper income taxpayers while Republicans, led by FL Senator Rick Scott released a plan where all Americans pay some tax to "have skin in the game" which would impact more than 50% of households that get back more income tax than they pay in, or just pay no income tax. The IRS and firms like ours could use a break and are hoping that in this election year, things can remain fairly stable. *Our one wish would be to restore the state and local tax (SALT) deduction.*

Tax tips we think are the most important:

Top tax tip #1. Get your tax return done early, or on extension, but not in the last weeks of tax season. This is what we tell our families. CPAs are not known for winning personalities on a good day, now imagine how they are while under extreme duress and no sleep for weeks. Have your return prepared while the preparer can focus his best attention on you, not when they are being pulled in a dozen directions and scrambling at the last minute.

Also, help shrink the amount of time the preparer works on your return from beginning to end by answering questions or providing additional information that is requested by us as quickly as possible. If too much time passes, we lose continuity, take more time and disrupt the rhythm of preparing your tax return efficiently.

Top tax tip #2. Touch base with us in the summer or fall to do a projection of your upcoming tax return. We may not have any magic to offer, but you do not know until we try. At worst, we can address any of your concerns and provide a reasonable expectation for the following tax return. At best, we will share a strategy you can use before it's too late. Once the calendar changes, there is much less to offer and our time is very limited. We invite you to take advantage of this and offer all clients a free hour before the season starts in January.

The best time to do this is late enough in the year when the remainder is predictable, yet early enough to do something about any tax issues. If you felt we did not have enough time during the height of tax season to go over any issues, please appreciate that we are available for you during the valuable and opportunistic time, typically July thru November.

Please rely on us to help you. We love what we do and are here for you, but we need you to alert us to changes that may lead to opportunities in your life. Please call us with any concerns and we look forward to reviewing where you stand for 2022.

Sincerely,

Patty Blake
Robyn Feldblum
Susannah Harris
John Bertolini

Jack Murray
Michelle Nelson
Louis Padavano
Vanessa Alcantara

Jenica Jesena
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Danielle Taylor
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