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Tax & Business Alert

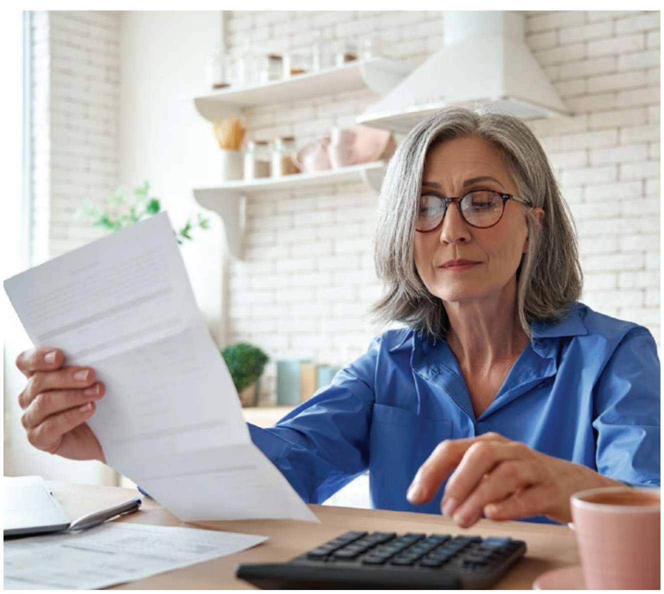
JANUARY 2022

HANDLE RETIREMENT PLAN ROLLOVERS WITH CARE

Because of the COVID-19 pandemic and other reasons, job upheaval has become common among Americans over the past year or so. If you may soon change employers, handle your retirement plan with care.

LEAVE AS IS

If your plan with your previous employer has a balance of at least $5,000, it must allow you the option to leave your money there. This is an easy option, but it has its risks. Your ex-employer may restrict your ability to change your portfolio, take distributions or update beneficiaries. As a nonactive participant, you may also incur higher fees and receive less-effective plan communications than active employees.



However, you may want to consult with your financial advisor before liquidating your holdings if your previous employer offers a hard-to-duplicate investment option.

ROLL IT OVER

Rolling over your savings into your new employer's plan can help you avoid potential downsides of staying with the old plan or tracking multiple plans. But before you take this step, review the investment options of your new employer's plan.

Beware of fees or charges you may incur when rolling your old plan balance into your new plan. If there are fees, you might want to keep your existing savings in the old plan or roll your account balance into an IRA while contributing to your new employer's plan.

If, on the other hand, a rollover into your new employer's plan seems like the better option, confirm that the plan accepts rollovers. Assuming that's the case, request a direct "trustee-to-trustee" rollover. Otherwise, your old employer will mail a distribution check to you, minus a mandatory 20% tax withholding. You then have just 60 days to deposit these funds in your new plan. You also must cover the 20% that was withheld for taxes with other funds to achieve a 100% rollover.

Finally, if you fail to meet this 60-day deadline, or if you don't have the cash available to cover the taxes that were withheld, you must pay income tax on the amount that wasn't rolled over. If you're under age 59½, you may incur a 10% early withdrawal penalty.

IRA TRANSFER

IRAs typically provide a much wider array of investment options than most 401(k) plans do. Many financial services companies will accept a direct transfer of your retirement savings, which can streamline the process and avoid potentially costly mistakes.

In some cases, your assets can be transferred "in kind," meaning you don't need to sell certain investments to hold them in your IRA. Be aware, however, that you may be charged an annual fee after rolling your savings into an IRA.

CASH OUT

Unless you need the money to pay bills, consider the tax consequences before cashing out your retirement savings. Distributions will be taxed as ordinary income and, if you're under age 59½, you may have to pay an additional 10% penalty on any withdrawals.

There are exceptions to the penalties — for example, in cases of economic hardship or if you separate from service at age 55 or older. But even if you qualify for an exception, you'll owe ordinary income tax on the distribution.

PROTECT THE EGG

Don't let job-switching activities distract you from protecting your nest egg! Contact us for help. ■

COULD YOUR COMPANY USE A HEAVY SUV?

Many businesses need to invest in heavy sport utility vehicles (SUVs) to transport equipment and provide timely services. Fortunately, they may be able to claim valuable tax deductions for the purchases. If you're thinking about buying one, be sure to brush up on the tax rules first.

BONUS DEPRECIATION

Under current law, 100% first-year bonus depreciation is available for qualified new and used property that's acquired and placed in service in a calendar year. New and pre-owned heavy SUVs, pickups and vans acquired and put to business use in 2021 are eligible for 100% first-year bonus depreciation.

The only requirement is that you must use the vehicle more than 50% for business. If your business usage is between 51% and 99%, you can deduct that percentage of the cost in the first year the vehicle is placed in service. This generous tax break is available for qualifying vehicles that are acquired and placed in service through December 31, 2022.

The 100% first-year bonus depreciation write-off will reduce your federal income tax bill and self-employment tax bill, if applicable. You might get a state tax income deduction, too.

WEIGHT REQUIREMENT

This option is available only if the manufacturer's gross vehicle weight rating (GVWR) is above 6,000 pounds. You can verify a vehicle's GVWR by looking at the manufacturer's label, usually found on the inside edge of the driver's side door where the door hinges meet the frame.

These tax benefits are subject to adjustment for non-business use. And if business use of an SUV doesn't exceed 50% of total use, the vehicle won't be eligible for the expensing election, and would have to be depreciated on a straight-line method over a six-tax-year period. Detailed, contemporaneous expense records are essential in case the IRS challenges your business-use percentage.

Keep track of the miles you're driving for business purposes, compared to the vehicle's total mileage for the year. Recordkeeping is easier today because of the many mobile apps designed for this purpose. You could also simply keep a handwritten calendar or mileage log in your vehicle and record details as business trips occur.

THE RIGHT MOVES

Are you considering buying an eligible vehicle and placing it in service in 2022? Before signing the sales contract, consult with us to help evaluate the right business tax moves. ■

TRACKING DOWN DONATION SUBSTANTIATION

If you're like many Americans, letters from your favorite charities may be appearing in your mailbox acknowledging your 2021 donations. But what happens if you haven't received such a letter? Can you still claim a deduction for the gift on your 2021 income tax return? It depends.

WHAT'S REQUIRED

To support a charitable deduction, you need to comply with IRS substantiation requirements. This generally includes obtaining a contemporaneous written acknowledgment from the charity stating the amount of the donation if it's cash. If the donation is property, the acknowledgment must describe the property, but the charity isn't required to provide a value. The donor must determine the property's value.

"Contemporaneous" means the earlier of the date you file your tax return or the extended due date of your return. So, if you donated in 2021 but haven't yet received substantiation from the charity, it's not too late — as long as you haven't filed your 2021 return. Contact the charity and request a written acknowledgment.

Keep in mind that, if you made a cash gift of under $250 with a check or credit card, generally a canceled check, bank statement or credit card statement is sufficient. However, if you received something in return for the donation, you generally must reduce your deduction by its value — and the charity is required to provide you a written acknowledgment as described earlier.

DEDUCTION FOR NON-ITEMIZERS

Generally, taxpayers who don't itemize their deductions (and instead claim the standard deduction) can't claim a charitable deduction. Under the CARES Act, individuals who didn't itemize deductions could claim a federal income tax write-off for up to $300 of cash contributions to IRS-approved charities for the 2020 tax year.

Fortunately, this tax break was extended to cover $300 of cash contributions made in 2021 under the Consolidated Appropriations Act. The law also doubled the deduction limit to $600 for married joint-filing couples for cash contributions made in 2021.

LET US ASSIST YOU

Additional substantiation requirements apply to some types of donations. We can help you determine whether you have sufficient substantiation for the donations you hope to deduct on your 2021 income tax return — and guide you on the substantiation you'll need for gifts you're planning this year to ensure you can enjoy the desired deductions on your 2022 return. ■

TAX CALENDAR

January 18
Individual taxpayers' final 2021 estimated tax payment is due.

January 31
File 2021 Forms W-2 ("Wage and Tax Statement") with the Social Security Administration and provide copies to employees.

- File 2021 Forms 1099-NEC ("Nonemployee Compensation") (paper or electronic) reporting nonemployee compensation payments to the IRS and provide copies to recipients, along with a related Form 1096 ("Annual Summary and Transmittal of U.S. Information Returns") to the IRS.
- Most employers must file Form 941 ("Employer's Quarterly Federal Tax Return") to report Medicare, Social Security and income taxes withheld in the fourth quarter of 2021. 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 February 10 to file the return. Employers who have an estimated annual employment tax liability of $1,000 or less may be eligible to file Form 944 ("Employer's Annual Federal Tax Return").
- File Form 940* ("Employer's Annual Federal Unemployment [FUTA] Tax Return") for 2021. If your undeposited tax is $500 or less, you can either pay it with your return or deposit it. If it's more than $500, you must deposit it. However, if you deposited the tax for the year in full and on time, you have until February 10 to file the return.
- File Form 943* ("Employer's Annual Federal Tax Return for Agricultural Employees") to report Social Security, Medicare and withheld income taxes for 2021. 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 year in full and on time, you have until February 10 to file the return.
- File Form 945* ("Annual Return of Withheld Federal Income Tax") for 2021 to report income tax withheld on all nonpayroll items, including backup withholding and withholding on pensions, annuities, IRAs, etc. 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 year in full and on time, you have until February 10 to file the return.

February 28
File 2021 Form 1099-MISC ("Miscellaneous Income") reporting certain payments to certain persons and provide copies to recipients, along with a related Form 1096 ("Annual Summary and Transmittal of U.S. Information Returns") to the IRS.

March 15
2021 tax returns must be filed or extended for calendar-year partnerships and S corporations. If the return isn't extended, this is also the last day for those types of entities to make 2021 contributions to pension and profit-sharing plans.

*At press time, the IRS hadn't yet released instructions for 2021 Forms 940, 943 and 945. The due dates shown are based on those for 2020.

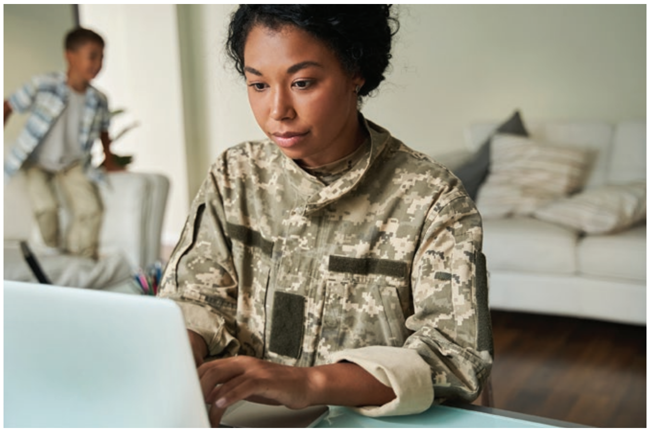
IMPOSTER FRAUD TARGETS MILITARY MEMBERS AND VETS

According to the Federal Trade Commission, veterans lost approximately $60 million to fraud in 2020. Among the greatest fraud threats to this group is "imposter" fraud.

In this scheme, a criminal calls, emails or texts potential victims and pretends to be working for the Veterans Administration (VA) or another government agency. Perpetrators might claim they need personal information, such as Social Security or bank account numbers, to authorize the release of benefits. Instead, they use that data to commit identity theft.

Other times, perpetrators pose as financial advisors who convince vets to exchange their pensions for up-front cash payouts. In most cases, the payouts are worth less than the pensions. Or fraudulent advisors may tout special benefits programs that can be accessed only by paying a fee. After paying, the fraud targets learn the programs don't exist.

If you're a military member or vet, don't provide any information about yourself until you've independently confirmed the identity of anyone claiming to be a



government official. Call the agency's official phone number to inquire about the matter.

Never give anyone Social Security, bank account or credit card numbers over the phone or in response to an electronic communication. Legitimate representatives from the VA, IRS or state unemployment agencies won't ask for them. Contact us with questions about these or any other form of financial fraud. ■