SYSTEMIZER 2021

INDIVIDUAL INCOME TAX RETURN

FORM 1040

THIS SYSTEMIZER IS PREPARED AS A **GUIDE** FOR YOU TO COMPILE YOUR TAX DATA PROPERLY AND IN THE MOST ACCURATE WAY, ONE THAT WILL HELP AVOID ANY QUESTIONS OR OMISSIONS OF INFORMATION. THE SYSTEMIZER ALSO IS INSTRUMENTAL IN NOTIFYING YOU OF **IMPORTANT MATTERS** AND **CHANGES IN THE TAX STRUCTURE.**

☼IRS & most State taxing agencies mandate that tax preparers MUST file their client's returns electronically. Failure to do so may subject this office to a PENALTY unless the client signs a specifically worded statement documenting the taxpayer's request to file by paper. Further, additional forms – Form 8948 & State Opt-Out Forms – will be included with your paper-filed Federal & State returns, stating that you have elected to file by paper. Paper returns are being phased-out by most taxing authorities. If you still do not want to file electronically, please call our office and we will mail you a specimen form to be signed and returned to this office prior to commencing work on your return. *OTHERWISE, THE TAX PREPARER (me) IS SUBJECT TO A PENALTY FOR PAPER FILING.*

BENEFITS OF IRS E-FILING:

- ACCURACY SECURITY ELECTRONIC SIGNATURES PROOF OF ACCEPTANCE FAST REFUNDS
- FLEXIBLE ELECTRONIC PAYMENT OPTIONS Convenient, safe and secure electronic payment options are available. E-File and pay in a single step. Schedule an electronic funds withdrawal from your bank account (up to and including **April 18, 2022**, OR the extended due date [**subject to late payment charges if not paid by April 18, 2022**] or pay by credit card. Easy payment with immediate proof of acceptance. You can also schedule payments for the future (estimated tax payments). **Payment deadline for 2021 tax year is April 18, 2022.**
- **When you E-File you hopefully avoid possible delays of refunds caused by possible disruptions in mail service.**
- **GO GREEN**

IMPORTANT NEWS FOR 2021 FILING YEAR

- **V.I.P. SEND US THE LETTER 1444 THAT THE IRS MAILED YOU IN 2022 REGARDING THE STIMULUS PAYMENTS YOU RECEIVED IN 2021**
- **V.I.P. SEND US THE LETTER 6419 THAT THE IRS MAILED YOU IN 2022 REGARDING THE ADVANCE CHILD TAX CREDIT**

REFUNDS: ALL Returns, especially those containing an Earned Income Tax Credit (EITC) and the Additional Child Tax Credit (ACTC), and uncertain Stimulus claims could expect DELAYS receiving Refunds. *IRS IS EXPERIENCING UNPRECEDENTED UNPROCESSED WORKLOADS AND PROCESSING DELAYS WHICH MAY IMPACT YOUR RETURN FILINGS*.

IRA CONTRIBUTIONS: Taxpayers with sufficient Earnings (eg. W-2 or Self-Employment Net Profit, etc) may make Contributions to a Traditional IRA, regardless of their age. There is no longer an age limitation for the Traditional IRA.

DUE DILIGENCE: The IRS is requiring the completion of Form 8867, Paid Preparer's Due Diligence Checklist, which must be submitted with every return or claim for refund prepared with the EITC, CTC, or AOTC (American Opportunity Tax Credit). The Tax Preparer must personally answer Question 15 of the Form 8867, Credit Eligibility Certification, and the Preparer must document and retain records of how, when, and from whom the information obtained to prepare the tax return and worksheets were obtained, as well as answers to the Filer"s questions. I may require school records, birth certificates, utility bills, etc to verify information, if the situation warrants this. Further, the IRS assesses stiff fines if the Tax Preparer fails any of the due diligence requirements. The preparation of this Form will increase the time required to complete your returns; and, this may result in an increase in the Preparation Fees. If the IRS decides that the Credit was improperly taken, there will be a penalty period before the use of that penalty would be allowed again.

TAX YEAR 2021

INHERITANCE, ESTATE AND GIFT TAX

Note: The following is only an introduction to and a brief synopsis of a COMPLICATED subject, and is not intended cover all matters of Inheritance, Estate & Gift Taxes and Planning Measures.

FEDERAL Form 706 and Form 709 United States Federal Estate, Gift & Generation-Skipping Transfer Taxes were designed to form a unified transfer tax system on the transfer of property at death (Estate Tax), during life (Gift Tax), and on transfers that skip a generation (GST Tax). There is an automatic lien on all property an individual owns when he/she dies; therefore, a waiver is required to transfer it to the heirs. The manner in which assets are titled (such as joint bank accounts, etc.) could affect the decedent's intentions for the disposition of those assets which may pass outside the will, in whole or in part.

NOTE: Estates with a FMV less than the exemption amount **are encouraged to file the Form 706** in order to establish basis and to begin the statute of limitations regarding the "Step-Up" or alternate value. It is **MANDATORY** to file (regardless of the value of the Gross Estate) if you want to elect **PORTABILITY** between individuals married to the decedent at the time of death! See below. Same-Sex married couples enjoy the same treatment as traditional married couples for the Federal Estate taxes. Many states also recognize same-sex marriages, including New York & New Jersey. Since NJ previously had Civil Unions and Domestic Partnerships, it is important to actually get married in order to qualify for the Federal benefits. ***Be sure to check with an attorney knowledgeable in this matter in your state.***

The basic exclusion amount for the estates of decedents who die during **2021** was **$11,700,000**. For **2022**, that amount increases to **$12,060,000**. This amount will increase for inflation each year until 2025. The top estate and gift tax is **40%.** No marital deduction is allowed for Federal purposes if the surviving spouse is not a U.S. citizen, regardless whether the assets pass under or outside of the Will. Special rules apply to spouses who are not citizens of the U.S.

In addition to raising the exclusion amount, the **ATRA'12** made **"PORTABILITY"** of the exclusion between spouses permanent, meaning that any exemption amount not used by the spouse who is first to die would transfer to the surviving spouse without the need for complex estate planning techniques. Thus, if a spouse died in 2021 and left the entire estate to the surviving spouse (which does not require the use of the exemption), the surviving spouse could conceivably have a $23,400,000 million exemption available to use on that spouse's death (in certain circumstances). For 2022, this amount could be as much as $24,120,000, with portability. **The IRS has instructed estates that want to elect portability to timely file an estate tax return (Form 706) even if there is no estate tax liability**. Many of us may not expect to leave an estate of this size, but there is always the lottery, or re-marriage. This may prove to be a very wise move, in some estate situations. It is important to note, however, that portability is only a FEDERAL concept, & NOT for New Jersey or New York, nor for most states.

The Gift Tax is based on all property transferred during life.
The applicable exclusion was **$11,700,000,000 for 2021**. The applicable exclusion for **2022** will be **$12,060,000**.
NOTE: Taxable gifts do not include those gifts protected by the annual per donee exclusion allowed for gifts of present interest. The aggregate annual exclusion per donor (gift-giver) per donee (recipient) was at **$15,000** for **2021**. The aggregate annual exclusion for **2022** is projected to be **$16,000**. Therefore, these excludable amounts are neither taxed nor do they use up any of the donor's lifetime gift tax applicable credit amount. Taxable gifts also do not include gifts to your spouse (who is a U.S. citizen), payments directly to an education institution for tuition (books and fees are not eligible for this exclusion) for another individual (whether or not your dependent), or payments directly for medical care, including medical insurance for another individual (whether or not your dependent). Filing a gift tax return doesn't necessarily mean that you will owe gift tax. Gifts to a noncitizen Spouse are excludable up to the first $159,000 for 2021 and projected to be $164,000 for 2022. Special rules apply for non-residents and non-citizen gift giving and receiving.

New York does not have an Inheritance Tax; however, it does have an Estate Tax, with an exemption of **$5,930,000** for deaths from 1/1/21 through 12/31/21, and $6,110,000 for deaths from 1/1/22 through 12/31/22.
Pennsylvania has an Inheritance Tax, but no Estate Tax.
New Jersey no longer has an Estate tax, but it does have an **Inheritance Tax**, both Resident and Non-Resident (when applicable). There is an unlimited marital deduction, therefore no Inheritance Tax if the entire estate is left to the spouse. **NJ INHERITANCE TAX** is based upon the **Class of the Beneficiary**. There are special NJ Estate Tax rules for a spouse who is not a U.S. citizen.

ESTATE PLANNING It is **IMPORTANT** that you review your **WILL** at certain times. The Intent of the Will can be frustrated if the assets are not properly titled. Estate & Inheritance Taxes can be very complex and involved. Refer to **PAGE A4** for some brief tips.

IT IS IMPORTANT THAT YOU HAVE A POA FOR HEALTH CARE AS WELL AS ONE FOR OTHER MATTERS. IT MAY ALSO BE IMPORTANT TO HAVE A POA WHICH BECOMES EFFECTIVE ONLY UPON CERTAIN EVENTS (SUCH AS UNEXPECTED HOSPITALIZATION OR INCAPACITATION). THIS ALSO APPLIES TO MARRIED INDIVIDUALS.
TALK TO YOUR ATTORNEY ABOUT THESE MATTERS!

TAX YEAR 2021

QUALIFIED RETIREMENT PLANS

The elective deferral limits for 2021 & 2022 are listed below:	2021	2022
401(k), 403(b) annuities, SEPs, and 457 plans (in general)	$19,500	$20,500
8,500		
Catch-up contributions for taxpayers over age 49.	6,500	6,500
NOTE: 403(b) can have a special rule for the catch-up contribution.		
SIMPLE plans	13,500	14,000
Catch-up contributions for taxpayers over age 49	3,000	3,000

This limit applies to the sum of elected deferrals for all plans combined, regardless of the number of employers or plans.

The maximum contribution in 2021 (before $6,500 catch-up) to a defined contribution plan is $58,000 ($61,000 in 2022).

NOTE: 401(k) and **403 (b)** plans can be modified to accept ROTH contributions **[Roth 401(k)]**. While these elective deferrals will not create any current deductions, they do offer some alternative choices to save for retirement.

TRADITIONAL IRA AGI Limitations for Active Participants

The deduction for contributions to a traditional IRA is phased out if the taxpayer is an active participant in a qualified employer sponsored retirement plan or is the spouse of an active participant. The phase-out begins when modified AGI exceeds a specific amount and is reduced to zero over a $10,000 range. (For 2021, these limitations are between $66,000 & $76,000 for Single & HH; $105,000 & $125,000 for Married Filing Joint & Qualified Widow/er; $0 & $10,000 for Married Filing Separate.

2021 & 2022: Qualified **IRA** contribution is **$6,000** (**$7,000** if you are **50** or older). This amount is limited to your earned income, with special rules for married filers as relates to the earned income, (no changes from '21 to '22).

ROTH IRA: The contribution amount is the same as for Traditional IRA's. ROTH MAGI 2021 phase-outs start at $198,000 and end at $208,000 for MFJ or QW; $125,000 and ends at $140,000 for Single; and MFS who lived with the spouse ($0-$10,000 phaseout).

NOTE; Total contributions, including BOTH Traditional and ROTH, may not exceed the $6,000 ($7,000 if age 50 or older) limit for 2021 & 2022, (unchanged). (If you are Married Filing Separately, and did NOT live with your spouse at ANY time during the year, then you are considered SINGLE for the IRA deduction purposes.)

EDUCATION IRA (Now called Coverdell Education Savings Accounts)

Annual nondeductible contributions limit of $2,000 per designated beneficiary, per year, (subject to income limitation) is now made permanent ATRA'12. Contribution due date is **April 15, 2022.** Eligible Education expenses that may be paid tax-free by a Coverdell ESA include K-High School costs.

HEALTH SAVINGS ACCOUNTS (HSA)

This plan, like an IRA, allows taxpayers to save money in tax-deferred accounts. Funds are exclusively for medical expenses. The owner must carry a high-deductible medical health plan (MDHP). 2021 HSA contribution deadline is **April 15, 2022.**

Taxpayers may contribute the lesser of the annual deductible for medical insurance coverage:	**2021**	**2022**
Self-Only coverage	$3,600	$3,650
Family Coverage	7,200	7,300
Catch-up provision for account beneficiary age 55 or older at the end of the year	1,000	1,000

NOTE: DISTRIBUTIONS NOT USED TO PAY QUALIFIED MEDICAL EXPENSES ARE SUBJECT TO INCOME TAX PLUS A 20% PENALTY. NO PENALTY IF 65 OR OVER.

SHIFTING INCOME TO YOUR CHILDREN: TAKING ADVANTAGE OF YOUR CHILD'S LOWER TAX BRACKET

The "kiddie tax" is a special tax intended to stop you from shifting investment income to children, who are presumably taxed at lower rates than their parent(s). For 2021, the tax applies to dependent children under age 18 and dependent full-time students under age 24 at the end of 2021 who report unearned income over $2,200, with some special qualifications for support and earned income. For 2021, the child's first $1,100 of unearned income isn't taxed at all, the next $1,100 of unearned income is taxed at the child's tax rate, and the child's "excess" unearned income is taxed at the parent's marginal rate. Certain levels of earned income will impact tax reporting.

The kiddie tax rules crimp your ability to cut tax by shifting investment income to your children. Careful planning will be necessary to see what is the best plan for investments. You might be able to invest your child's assets in vehicles that don't generate current income. Be sure to discuss with your Financial Advisor.

TAX YEAR 2021

KEEP THIS PAMPHLET FOR FUTURE YEARS' USE

Fighting Back Against Identity Theft

Federal Trade Commission

Deter identity thieves by safeguarding your information:

- Shred financial documents and paperwork with personal information before you discard them.
- Protect your Social Security number. Don't carry your Social Security card in your wallet or write your Social Security number on a check. Give it out only if absolutely necessary or ask to use another identifier.
- Don't give out personal information on the phone, through the mail, or over the internet unless you know who you are dealing with.
- Never click on links sent in unsolicited emails; instead type in a web address you know. Use firewalls, anti-spyware, and anti-virus software to protect your home computer; keep them up-to-date. Visit OnGuardOnline.gov for more information
- Don't use an obvious password like your birth date, your mother's maiden name, or the last four digits of your Social Security number.
- Keep your personal information in a secure place at home, especially if you have roommates, employ outside help, or are having work done in your house.

⇒ **Remember, the IRS does not initiate contact with taxpayers via e-mail, and the IRS does not request detailed personal information through e-mail. Please forward bogus email claiming to be from the IRS to phishing@irs.gov.**

THE IRS DOES NOT MAKE TELEPHONE CALLS TO TAXPAYERS. CALL ME IF YOU RECEIVE ANY CALLS, EMAILS, OR LETTERS; BUT DO NOT, not, NOT GIVE OUT ANY INFORMATION ON THE TELEPHONE OR ON THE INTERNET. DO NOT give personal information to emails or calls from Social Security Administration. ALWAYS CALL THIS OFFICE FIRST.

ABSOLUTELY DO NOT OPEN attachments or click on the links found within bogus emails!!

MISCELLANEOUS TIPS AND INFO

NJ VETERAN'S EXEMPTION FOR 2021 IS $6,000. 2021 PENSION & RETIREMENT INCOME EXCLUSION (MFJ) IS $150,000. EIC EXPANDED TO 18 YRS AND OLDER.

TIP: Everyone can benefit from an **ESTATE PLAN.** It should consist of your will, health care documents, powers of attorney, life insurance coverage, and post-mortem letters. Update periodically as needed.

Some Reasons to Prepare A Will:

1. To Choose Beneficiaries
2. To Minimize Taxes
3. To Appoint a Guardian for Children
4. To Name an Executor
5. To Establish a Domicile
6. Asset Protection
7. Ease Family Questions regarding Distribution of Assets, etc.

TIP: Here are some **LIFE EVENTS** that necessitate an update to your **ESTATE PLAN**:
>Marriage or Remarriage >Birth/Adoption of a Child >Death of a family member >Sale or Purchase of Residence >Enactment of new tax laws >Retirement

Do Both the **Name and SSN** on Your Tax Forms Agree with your Social Security Card? Also do your Tax Documents have the correct social and name? If not this could affect your Social Security earnings. Contact Social Security at 1-800-772-1213 or www.ssa.gov

NO REFUND FOR SOME!
Expecting a refund but haven't paid certain bills? Some people may find themselves waiting a long time. Federal Law allows income tax refunds to be taken to pay off all or part of past-due child and spousal support, delinquent student loans, income tax or federal debts. The IRS will let people know if their refund was used to pay back what they owe.

Turning 65? Be sure to put in the paper work for your **Medicare coverage three months before you turn 65**, even though you are not yet eligible to collect Social Security Benefits. You may also sign up for Medicare part D at that time. Check out all plans to be sure that you elect the proper Prescription coverage. Penalties may apply for failure to sign up

CONTRIBUTIONS

CHARITABLE GIFTS OF CASH - There are several ways to write off charitable gifts depending on what you give and any "strings" you keep attached. Here are some rules for cash gifts:

- For **2021**, You can deduct up to **100%** of your AGI for cash gifts to "501(c)(3) organizations" or public charities. Individual taxpayers can continue to carry forward any excess charitable contributions for five years, but the enhanced 100 percent deduction limitation **expires after 2021**
- You can deduct up to 60% of your AGI for cash gifts to Private Foundations, with a five year carry forward for the excess;
- Gifts by check are deductible in the year you present the check, even if it is not cashed until the next year;
- If your gift of $75 or more entitles you to dinner or a banquet, the organization has to disclose the value of those benefits. Token items have no reduction requirement;
- If you give a single gift of more than $250, you will need a written receipt dated no later than the filing date of your return;
- If your donation to a college entitles you to buy athletic tickets, you can deduct 80% of your gift. The right to buy tickets is valued at 20% of the gift, regardless of the amount.

CHARITABLE CONTRIBUTIONS FOR NON-FILERS: FOR **2021,** THIS BENEFIT IS NOW A **DEDUCTION AGAINST TAXABLE INCOME** RATHER THAN A DEDUCTION AGINAST ADJUSTED GROSS INCOME, AS IT HAD BEEN IN 2020. **THE AMOUNT is still $600 for MARRIED filing JOINT Filers, and $300 for SINGLE Filers.**

CHARITABLE GIFTS

Amount	Proof
Under $250:	Dated bank record or receipt
$250-$500:	Dated bank record & receipt. Receipt must show value received (dinner, etc.)
$500-$5,000:	Dated bank record & receipt. Receipt must show value received (dinner, etc.). Gifts of any single item of property over $500 require Form 8283.
Over $5,000:	Dated bank record & receipt. Gifts of property worth more than $5,000 require a written appraisal (except for publicly-traded securities, or non-public stock up to $10,000).
Payroll Withdrawal:	Pay stub, W2, or other document showing total withdrawal, plus pledge card showing name of charity.

CHARITABLE GIFTS OF PROPERTY – Don't overlook gifts of property and appreciated assets for valuable deductions (subject to yearly limitations with carryover provisions as noted above):

- Gifts of clothing, furniture, electronics & household items in good condition are deductible at fair-market value ("FMV"). New rules let the IRS deny deductions for items with minimal value, like used socks or underwear;
- Gifts of insurance are valued at the policy's cash value, plus any ongoing premiums you give to the charity;
- Deductions for remainder interests in your home or other property are determined according to the property's value, your age, and the current "Section 7520" rate;
- ☆ For all donations of property, including **clothing and household items**, get from the charity, if possible, a receipt that includes the name of the charity, date of the contribution, and a reasonably-detailed description of the donated property. If a donation is left at a charity's unattended drop site, keep a written record of the donation that includes this information, as well as the fair market value of the property at the time of the donation and the method used to determine that value. Additional rules apply for a contribution of $250 or more.

Gifts of appreciated assets – Appreciated Assets, such as securities, real estate, and artwork, that you have held for more than a year make ideal charitable gifts. Special considerations apply:

- You deduct the FMV of the gift. (For securities, FMV is the average of the high and low sale prices on the date of the donation. For real estate, artwork, and personal property, FMV is the appraised value. Deduct appraisal fees as a miscellaneous itemized deduction.)
- You avoid tax on capital gains that you would have paid if you had sold the property first and then gave cash;
- If you give art or tangible personal property (books, furniture, etc.) your deduction depends on how the charity plans to use it. If the charity plans to use it for "exempt" purposes, such as displaying donated art for students to study, deduct the FMV. If the charity sells the gift, your deduction is limited to your basis or actual cost, whichever is less.

NON-CASH CHARITABLE CONTRIBUTIONS

You **MUST** maintain DOCUMENTATION for NONCASH items. Provide me with the following for donations to organizations such as Goodwill or Veterans, etc:

- **Date Acquired** (VARIOUS is an acceptable date)
- **Condition**
- **Purchase Price** (You may reasonably Estimate this amount)
- **Current Retail Value & How Determined** (eg., Thrift Shop, Comparable Sales, etc)

Please note that I do not have access to your records regarding the above. However, these are questions that I have to answer when completing the Form 8283 for Non-Cash Charitable Donations. The answers to these questions are your responsibility. The **IRS is scrutinizing returns with Non-Cash Contributions** and, as with any other information included in your return, you are required to have **SUBSTANTIATION** for the Income or Deductions. You must maintain this substantiation and certify that you have it. You do not need to provide me with the Substantiation, unless I need to clarify an issue. In that case, I will contact you for the paperwork.

EDUCATION CREDITS

NOTE: Payments must be **made in 2021 for academic periods beginning in 2021 or the first 3 months of 2022.**

1. AMERICAN OPPORTUNITY TAX CREDIT (a.k.a. MODIFIED HOPE CREDIT) has (a) increased the maximum credit to $2,500 per student, subject to increased phase outs, etc.; (b) expanded the definition of qualified educational expenses to also include course materials (books), along with tuition & fees, (c) the credit is only allowed for the first four years of post-secondary education, (d) for the qualified period, the taxpayer may be allowed a refundable credit up to 40% of the maximum allowable American opportunity credit (up to $1,000 refundable), after limitations and certain restrictions, etc. (e) the credit is allowed against the AMT, subject to restrictions and limitations. The *American Opportunity Tax Credits (AOTC)/Hope Scholarship for higher education expenses has been made* PERMANENT *by the Consolidated Appropriations Act, 2016.*

2. LIFETIME LEARNING CREDIT (max of $2000 per return per year subject to income limitations) expenses include all years of post-secondary education as well as graduate level and for courses to acquire or improve job skills. There is no degree required for the Lifetime Learning Credit. This benefit is available for an unlimited number of years.

3. PHASE-OUT LIMITS ON LLC NOW MATCH THE PHASE-OUT LIMITS FOR AOTC

NOTE: EDUCATION CREDIT

a. YOU **CANNOT** TAKE THE CREDIT IF SOMEONE ELSE LISTS YOU AS A DEPENDENT ON THEIR TAX RETURN

b. YOU **CANNOT** TAKE THE CREDIT IF YOUR FILING STATUS IS MARRIED FILING SEPARATELY.

c. PER THE **TRUMP TAX CUTS AND JOBS ACT**, SECTION 529 DISTRIBUTIONS MAY INCLUDE UP TO $10,000 PAID FOR ELEMENTARY OR SECONDARY SCHOOL TUITION INCURRED AFTER 2017.

d. AN AMOUNT DISTRIBUTED FROM A QTP AFTER 12/22/2017 IS NOT TAXABLE IF IT ROLLED OVER TO AN ABLE ACCOUNT FOR THE BENEFIT OF THE SAME BENEFICIARY OR FOR THE BENEFIT OF A MEMBER OF A BENEFICIARIES FAMILY, SUBJECT TO ANNUAL CONTRIBUTION LIMITS.

RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT –

Residential energy efficient property credit (REEP)– This credit allows for a credit equal to the applicable percent of the cost of qualified property (Solar Electric Property, Solar Water Heaters, Geothermal Heat Pumps, Small Wind Turbines, Fuel Cell Property, and Qualified Biomass Fuel Property) paid or incurred in 2021 through December 31, 2023. The applicable percentage for 2021 through 2022 is 26%. The applicable percentage for 2023 is 22%.

Residential Energy Property Credit is available in 2021 if you made energy saving improvements to your principal residence during 2021. The credit is limited to an overall lifetime credit limit of $500 ($200 lifetime limit for windows). Other eligible improvements are Advanced Main Air Circulating Fan ($50), Qualified Natural Gas, Propane, or Oil Furnace or Hot Water Boiler ($150) and Any Item of Energy-Efficient Building Property ($300)

The Energy credits are nonrefundable and, to the extent not used in the current year to reduce federal income tax, it may be eligible for carryforward.

HOME OWNERS NEW FOR SALES & EXCHANGES AFTER 12/31/2008

In general, an individual taxpayer may exclude up to $250,000 (500,000 on a joint return) of gain realized on the sale or exchange of a principal residence under Section 121 of the Internal Revenue Code. To be eligible for this exclusion, the taxpayer must have owned and used the property as a principal residence for at least two of the five years ending on the date of the sale or exchange. However, the exclusion does not apply to any gain attributable to depreciation after May 6, 1997 [Sec 121(d)(6)].

For sales and exchanges **after** December 31, 2008, the Housing Act provides that the Sec 121 exclusion does not apply to any gain allocated to periods of "**NONQUALIFIED USE**" [Sec 121(b)(4)] (**NEW PROVISION).** In general, the term "**period of nonqualified use**" means any period after December 31, 2008, during which the property is not used as the principal residence of the taxpayer or the taxpayer's spouse (eg., Conversion of vacation home (or any other property) into the principal residence after December 31, 2008.) There is an applicable fraction for determining reportable gain versus excludable gain which will differ for each individual depending on the circumstances.

NOTE: It is **VERY** important to keep good, substantiated basis records to reduce the taxable gain.

Installment Agreements If you cannot pay your Federal Income tax in full, you may request an installment arrangement with the IRS at the time of filing. This arrangement allows for you to make monthly installment payments. The one-time fee for an approved installment agreement is $130 in 2021 ($31 if payments are made by electronic funds withdrawal). If your income is below a certain level, the fee is reduced. Online agreements without and with direct debit are $130 and $31, respectively. After approving the request, the IRS will bill you for interest and a late payment penalty on the tax not paid by the original due date of the return (**extensions do NOT extend the time to pay the tax in full**). These charges will be assessed even if the request to pay in installments is granted. To limit the interest and penalty charges, you should try to pay as much of the tax as possible by the original due date.

Before considering an installment agreement, you may want to consider other less costly alternatives, such as a bank loan. Once you have decided to apply for the installment agreement, you must determine how much you can pay every month to enable the tax to be paid off in five years' time; however, it would be in your best interest to make payments in greater amounts to save penalties and interest, which continue to accrue. Once a monthly amount is established, you must be sure to pay at least that amount by the periodic date established with the installment request. You can always pay more in any month if you have the available funds, but you can **NEVER PAY LESS THAN THE ESTABLISHED MONTHLY AMOUNT WITHIN THAT MONTH.**

If you default, the IRS will demand payment of the entire remaining balance in full. At that time, another installment request may be filed, but, if accepted by the IRS, an additional set-up fee will be charged. The installment request may be made when we electronically file your return.

SOCIAL SECURITY COMPENSATION

Compensation subject to Social Security withholding (and SE Tax) was **$142,800 for 2021**. All compensation, regardless of the amount, is still subject to Medicare tax withholding. After wages reach a threshold of $200,000, **an additional 0.9%** of Medicare tax will be withheld from wages, in addition to the normal 1.45%. However, the actual thresholds when filing the tax returns are: Married Filing Joint - $250,000; Married Filing Separate - $125,000; and all others (S, QW, HH) - $200,000. An employee will have excess Social Security or Tier 1 Railroad Retirement Tax withholding for 2021 only if the wages from two or more employers were more than $142,800.

In 2022, the Social Security Compensation Wage Limit is $147,000.

REFUND CLAIMS

Generally, a claim for credit or refund of a tax paid by return must be filed within the later of (A) three years from the date the return was timely or untimely filed (or the due date if filed earlier), of (B) two years from the date the tax was paid. If you do not meet this statute, you will lose your refund (in most cases).

IMPORTANT TIP: IRS AGENTS WILL NEVER CONTACT YOU VIA TELEPHONE UNLESS YOU PLACE A CALL TO THEM DIRECTLY, NOR BY E-MAIL. IF THE IRS NEEDS TO CONTACT YOU THEY WILL DO SO VIA U.S. MAIL. AT THIS TIME YOU SHOULD REFER THE CORRESPONDENCE TO FELTZ ASSOCIATES, LLC TO PROPERLY HANDLE THE SITUATION. NEVER GIVE OUT PRIVATE INFO OVER THE PHONE OR MAIL UNLESS YOU GENERATED THE REQUEST. NEVER, EVER BY E-MAIL

HOME OFFICE DEDUCTION EXPLAINED

*Whether you are self-employed or an employee, if you use a portion of your home exclusively and regularly for business purposes, you may be able to take a home office deduction.

*You can deduct certain expenses if your home office is the **principal place** where your **trade or business** is conducted or where you meet and deal with clients or patients in the course of your business. If you use a separate structure not attached to your home for part of your business, you can deduct expenses related to it, even if it is not the principal place of business.

*Your home office will qualify as your principal place of business if you use it **exclusively** and **regularly** for the administrative or management activities. If you do not meet these conditions, and you use both your home and other locations regularly in your business, you determine which location is your principal place of business based on the relative importance of the activities performed at each location. If the relative importance factor does not determine a principal place of business, consider the time spent at each location.

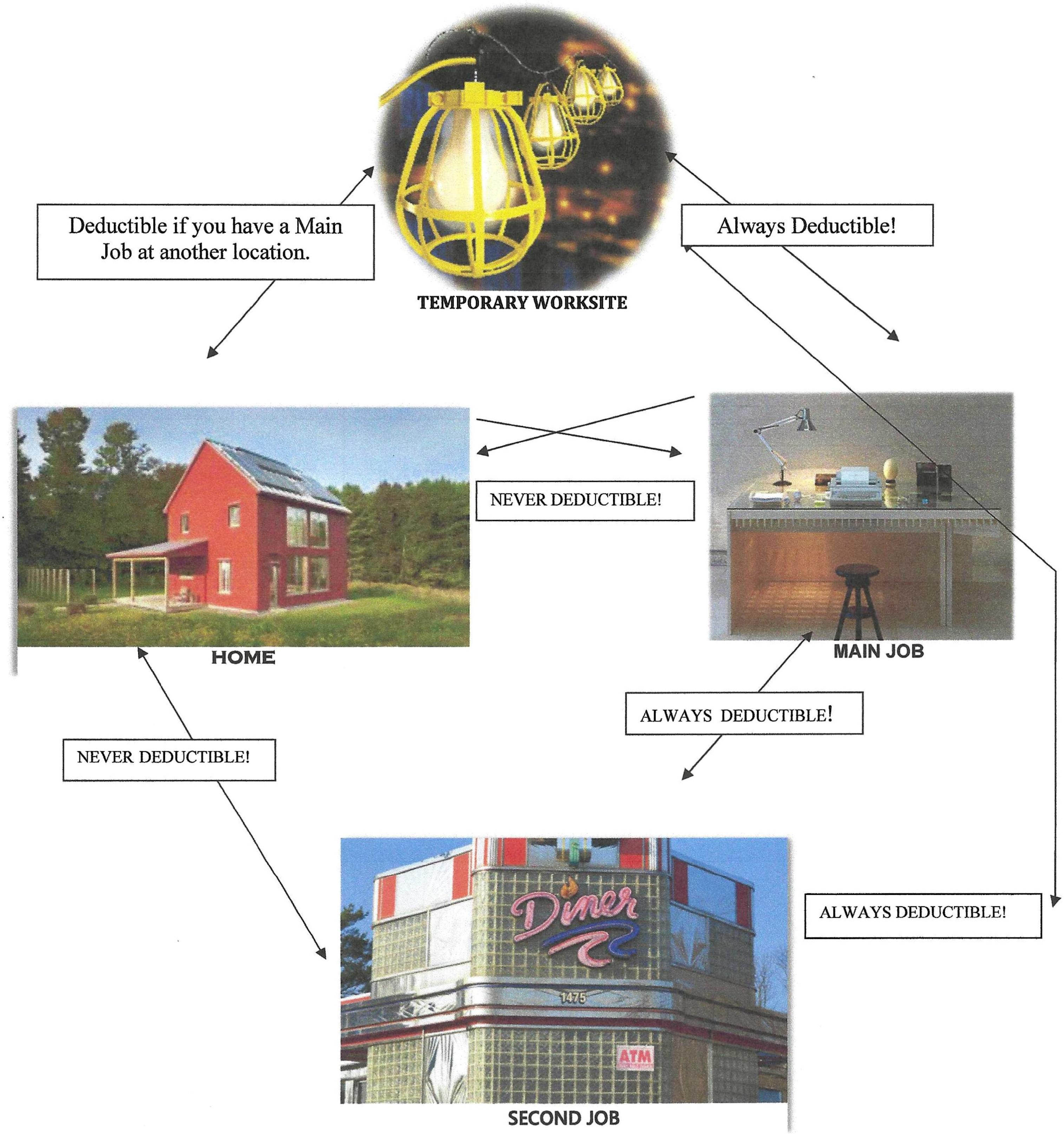
*'Exclusive Use' test is **NOT** required for (1) an area used regularly for inventory and product sample storage; (2)a home used as a Day Care Facility.

*If you are an employee, you have additional requirements to meet. You cannot take the home office deduction unless the business use of your home is for the convenience of your employer. The deduction is a miscellaneous Itemized Deduction on Schedule A. You cannot take deductions for space you are renting to your employer.

*Expenses that you can deduct for business use of the home may include the business portion of real estate taxes, mortgage interest, rent, utilities, insurance, depreciation, painting & repairs. However, you may not deduct personal expenses, expenses for lawn care or those related to rooms not used for business.

TAX YEAR 2021

WHEN ARE LOCAL TRANSPORTATION EXPENSES DEDUCTIBLE?



ITEMIZED DEDUCTION LIMITATIONS

State and Local Income taxes and Property taxes are still limited to $10,000 ($5,000 MFS). Even though your Federal Return might use the Standard Deduction (for 2021, MFJ=$25,100, HH=$18,800, S or MFS=$12,550, with additional amounts for age and blindness), it is important to submit those expenses, as well as all Medical Expenses, since there may be State Benefits for these various Deductions.

NEW YORK MATTERS:

- New York, as well as several other states, will require the inclusion of your License or Government ID number on the 2021 return in order to electronically file. In some circumstances, you may opt out.
- TAX DELINQUENCIES –
  - New York is suspending the Driver's License of a Taxpayer with a delinquent tax liability of $10,000 or greater.
  - New York may garnish your pay without the filing of a Tax Warrant. You have only 21 days to set up and installment or pay the tax before the garnishment begins, from the receipt of the first notice.
  - The State of New York will offset your Gambling Winnings to pay delinquent taxes.
- NY State's Empire State Child Credit is a refundable credit for full-year NY Residents with a qualifying child. The Eligible Income Thresholds are $110,000 or less for MFJ, $75,000 or less for S and $55,000 for MFS. This credit has other eligibility requirements as well. There are also many Real Property Credits as well as NYC credits available based on eligibility. Be sure to include all Home Rent paid and Home Owner Real Estate Tax information with your submissions to our office.

❖ ACHIEVING A BETTER LIFE EXPERIENCE (ABLE) Account for People with Disabilities -

ABLE accounts are tax-advantaged savings accounts for individuals with disabilities and their families. Eligible individuals and their families may establish an ABLE savings account to save up to $15,000 per year (2021). The savings are protected and will not affect eligibility for most means-tested benefits such as Supplemental Security Income (SSI), Medicaid and food stamps (SNAP). Working individuals may contribute even more! An eligible individual must meet certain qualifications to open an ABLE account.

- Families may roll over funds from a 529 plan to another family member's ABLE account.
- The ABLE account must be for the same beneficiary as the 529 account or for a member of the same family as the 529 account holder. Rollovers from a section 529 plan count toward the annual contribution limit. For example, the $15,000 annual contribution limit would be met by parents contributing $10,000 to their child's ABLE account and rolling over $5,000 from a 529 plan to the same ABLE account.
- States can offer ABLE accounts to help people who become disabled before age 26 or their families pay for disability-related expenses. These expenses include housing, education, transportation, health, prevention and wellness, employment training and support, assistive technology and personal support services.
- Though contributions aren't deductible for federal tax purposes, distributions, including earnings, are tax-free to the beneficiary, if they are used to pay qualified disability expenses.

The *Setting Every Community Up for Retirement Enhancement* (SECURE) *Act*

Repeal of the Maximum Age for **Traditional IRA Contributions. An individual of any age can make a contribution to a Traditional IRS provided there is compensation.

****RMD age raised from 70 ½ to 72**

** Penalty-free Retirement Plan withdrawals for expenses related to birth or adoption of a child

**Partial elimination of Stretch IRA's

**Guidance on Qualified Charitable Distributions (QCD) A taxpayer may EXCLUDE from Income the total amount of their RMD by using a QCD directly from the institution to the Charity, subject to certain current law restrictions.

**Taxable non-tuition fellowship and stipend payments treated as compensation for IRS purposes

TAX YEAR 2021

CHILD TAX CREDIT (CTC)

Expanded and increased. For 2021 ONLY, the ARP expanded the CTC to include children under the age of 18 & for taxpayers with a certain AGI. The act increased the CTC from $2,000 per eligible child to:

$3.600 for each child under age 6 $3,000 for each child age 6 to 17

THE AFFORDABLE CARE ACT

NOTE: The penalty for failing to maintain a minimum essential coverage for individuals (individual mandate) was repealed For the Federal Tax return filing beginning in 2019. However, many States, including NJ and MA, still penalize taxpayers for failure to carry Minimum Essential Coverage. **NJ HEALTH INSURANCE MANDATE continues for tax year 2021. There are *penalties* the same as those the Federal Government imposed prior to 2019.**

PREMIUM TAX CREDIT (PTC)

Refundable Health Insurance Premium Assistance Credit

The existing premium tax credit (PTC) under the Affordable Care Act (ACA)

Individuals who purchase qualified health care through an American Health Benefit Exchange are entitled to a refundable Income Tax Credit equal to the premium assistance Credit amount. There are certain requirements which must be satisfied to be eligible for the credit. The major requirement is the Taxpayer's household income must be at least 100%, but not more than 401% of the Federal Poverty Line (FPL) based on family size.

For 2021 & 2022, the American Rescue Plan Act of 2021 (ARP) Act improves health insurance affordability by expanding premium assistance for individuals with household income above 400% of the Federal Poverty Level (FPL) and increasing the PTC to lower or eliminate health insurance premiums and ensure enrollees will not pay more than 8.5% of their income for coverage. This change has the effect of increasing the number of people who are eligible for PTC.

If you purchased your health insurance through the Market Place at any time during 2021, you will be required to submit to me the Form 1095-A that you receive in the mail before I can complete your 2021 Income Tax Return. Please submit the any other series 1095 that you receive (1095-C or B).

NET INVESTMENT INCOME TAX (THE NIIT OR UIMC TAX) UNEARNED INCOME MEDICARE CONTRIBUTION

Starting in 2013, another part of the ACA, a 3.8% Medicare tax is applied against net investment income (NII) of individuals, estates and trusts. Individual for this purpose means any natural person, except those who are nonresident aliens. As such, the net investment income tax (NIIT) applies only to citizens or residents of the U.S.

The NIIT (or UIMC) tax is 3.8% of the lessor of:

- Net investment income for the year (special categories apply for this tax), or
- The excess of modified adjusted gross income (MAGI) over a threshold amount
  - $250,000 of MFJ and QW
  - $125,000 for MFS
  - $200,000 for HH and S

A new form was added to the return to calculate the NIIT – Form 8960.

NOTE: With the new Net Investment Income (NII) surtax of 3.8%, the overall Capital Gain rate for higher income Taxpayers is effectively 23.8%.

LIKE KIND EXCHANGE EXTREMELY IMPORTANT

1. CALL THIS OFFICE MANY WEEKS BEFORE CLOSING
2. YOU NEED A QUALIFIED INTERMEDIARY TO HANDLE THE MONEY
3. YOU MAY NOT RECEIVE ANY OF THE FUNDS, OR THE LKE IS CANCELLED
4. THERE ARE CERTAIN REQUIREMENTS FOR IDENTIFYING THE LIKE KIND PROPERTY AND FOR THE CLOSING OF THE PURCHASE OF THAT PROPERTY