

## 2021 YEAR-END LETTER

*Greetings! Here are our staff updates along with some helpful tax and estate planning ideas and reminders.*

### Office Announcements

- Tara Spruill-Jones, CPA is returning on a part-time basis. In her spare time, she continues to promote financial literacy.
- John Matras, CPA is onboard working remotely from rural Ohio. He has over 30 years tax accounting experience as well as having owned and operated successful businesses.
- Braulio Arroyo-Sosa moved here from Puerto Rico in August after completing an internship with a CPA firm in San Juan. In addition to exploring DC, he is pursuing the IRS Enrolled Agent credential.
- Anna Bigelow, Eddie's niece, is overseeing our conversion to upgraded document management software. Ask about her passion for carriage driving and her Shetland Ponies: Zoot, Lyra, Vodka, and Sea Lord.
- Greg Denning, Esq. has left to work for the IRS.
- Please visit our website [www.abramsontax.com] for full bios and pics of all our staff.
- **While the office will be open during normal business hours this tax season, we are maintaining strict COVID protocols and limiting client contact. Pick-ups will be available and the large mail slot in our front door remains a 24/7 drop-off option.**

### Deadlines

**Tax Client Organizers:** By early January, we will send out Engagement Agreements and Tax Organizers. While we will accommodate as many clients as possible, if we do not receive your information by **February 25, 2022**, we may extend your returns. Even if you are just awaiting a couple of items [e.g., brokerage 1099, K1], please submit what you *do* have by February 25th and note what is missing.

**Payments to Housekeepers, Child & Health Care Providers:** Unless hired through an agency, such providers are classified as employees. In 2021, if you will have paid any such worker **\$2,300** or total wages to all household employees of **\$1,000** during any three-month calendar quarter, you must issue them a Form W2 by January 31, 2022. [State unemployment reporting requirements vary.] If you want us to prepare W2s, we need your information by **January 14, 2022**.

**Payments to Independent Contractors:** In the course of your business [including rentals], if you pay any non-corporate contractors \$600 or more during 2021, you must issue a Form 1099 by January 31, 2022. The same **January 14<sup>th</sup>** cut-off date for us to receive your household employee information applies if you want us to prepare 1099s.

**FBAR:** If you have foreign financial accounts that exceed \$10,000 in aggregate at any time in 2021, a Report of Foreign Bank and Financial Accounts is due April 15, 2022.

## Retirement Plan Tidbits

**Required Minimum Distributions [RMDs]:** The age at which RMDs must begin is 72. This applies to traditional IRAs as well as to employer tax deferred accounts.

**IRA Contribution Age:** With sufficient earned income, contributions to IRAs may be made at any age.

**Inherited IRAs:** Distributions to non-spouse individuals must be made within 10 years of death.

**Roth IRAs:** The proposed “Build Back Better Plan” will eliminate backdoor Roth IRA conversions [contributing to a non-deductible IRA followed by a Roth conversion]; other limits to Roth IRA conversions are possible.

**Charitable Donating Directly from an IRA:** Consider making charitable contributions directly from your IRA, especially if you take the standard deduction or claim medical expenses [which is AGI based].

## Social Security Planning

**Maximizing Social Security Benefits:** To receive a statement of earnings, call the Social Security Administration [SSA] 1.800.772.1213 or create an online account <https://secure.ssa.gov/RIL/SiView.action>.

In addition to verifying that all earnings [including self-employment income] are reflected, the earnings statement will provide estimates for retirement, disability, and survivor benefits for which you may be eligible. [Note: SSA has decreased the number of mailed statements.]

The most common concern is whether to start claiming benefits at age 62 or to continue to let your benefits grow until age 66 or 70. There are also options worth examining when both spouses are entitled to benefits, especially if one spouse was born before 1954. Consider using a benefits analysis company such as Social Security Solutions, Inc. to help you navigate to the best strategy: <https://www.socialsecuritysolutions.com/>

## 2021 Thresholds and Limits

### **Threshold for 0% Federal Rate on Long-Term Capital Gains:**

If your taxable income is less than the following amounts, your long-term capital gains are taxed at a 0% federal rate:

Married Filing Joint: \$80,800.

Single: \$40,400.

Head of Household: \$54,100.

**Standard Deduction:** The standard deduction is \$12,550 for single filers and \$25,100 for joint filers. Single filers claiming the standard deduction can still additionally deduct up to \$300 of charitable contributions; the limit for joint filers has increased to \$600.

**IRA and 401(k) Limit:** For 2021, the contribution limit for 401(k), 403(b), most 457 plans, and the federal government’s Thrift Savings Plan remains at \$19,500; for those aged 50 or older, the limit is \$26,000. The IRA contribution limit is \$6,000; for those 50 and older, it is \$7,000.

**HSA Contributions:** If offered by your employer, consider setting up a Health Savings Account. HSA contributions are deductible, and withdrawals are tax free if used for qualified medical expenses. To contribute to an HSA, you must have a High Deductible Health Plan. In 2021, individuals can contribute up to \$3,600 and up to \$4,600 if age 55 or older. Those with family coverage can contribute up to \$7,200.

### **IDENTITY THEFT ISSUES**

The IRS will not call you about any tax matter without first mailing you a letter; nor will the IRS demand immediate payment over the phone. To avoid being a victim of identity theft, unless you have initiated contact, do not give any personal information over the phone, through the mail, or on the internet.

If you have been a victim of tax-related identity theft, the IRS will issue you an Identity Protection PIN each year. Upon receipt, please send us your assigned PIN.

## DC, MD & VA

**Section 529 Plans:** DC, MD, & VA allow deductions for contributions to their state Education and ABLE plans benefiting those with disabilities.

### **DC Homestead and Senior Citizen Property Tax Relief:**

1) The homestead deduction reduces your real property's assessed value by \$76,350.

2) The Sr. Citizen Property Tax Relief of 50% will apply to FY 2022 [10/1/2021 to 9/30/2022] if your total household income for calendar year 2021 is less than \$135,750.

Both forms of tax relief apply only to primary residences. Please review your tax bill annually as it is your responsibility to notify DC of any changes in eligibility: [https://www.taxpayerservicecenter.com/FP100\\_Homestead\\_Application.jsp](https://www.taxpayerservicecenter.com/FP100_Homestead_Application.jsp)

### **Residential Rental Owner Requirements:**

**DC:** (1) Obtain a business license; (2) Register with DC Consumer and Regulatory Affairs (DCRA); and (3) Meet the District's housing code compliance standards [<https://dcra.dc.gov/service/dc-housing-code-standards>]. If you expect your DC rental property to earn more than \$12,000 of gross revenue per year, you will need to register with the DC Office of Tax and Revenue and file annual personal property and unincorporated business franchise tax returns.

**Montgomery County, MD:** (1) Obtain a rental license; (2) Pass a lead test if built before 1950; and (3) Designate a MD resident agent. Units occupied by relatives, or in the cities of Rockville, Takoma Park, or Gaithersburg are exempt [<https://www.montgomerycountymd.gov/DHCA/housing/licensing/>].

**Arlington County, VA:** Obtain a business license: <https://taxes.arlingtonva.us/business/new-businesses/>.

## **Estate and Gift Planning**

### **Reportable Gifts and the Federal Estate and Gift Tax:**

\$15,000 is the threshold for when a gift tax return [Form 709] must be filed. But even though the excess above the \$15,000 is a "taxable gift", there is no gift tax until one's "taxable gifts" exceed \$11,700,000! The gift return merely tracks the "taxable gifts" so they will be counted towards one's cumulative lifetime transfers [during life and at death]. In other words, the \$11,700,000 "exemption" that you read about is an "estate and gift tax" exemption – i.e., it refers to the total asset values at death PLUS lifetime "taxable gifts".

For lifetime gifts, the donee [gift recipient] takes the basis of the donor. For inheritances, the beneficiary gets a basis "step-up" to the date of death value.

**State Thresholds:** The estate tax exemption is \$4,000,000 for DC and \$5,000,000 for MD. VA does not have an estate tax.

**Planning Opportunity:** For taxpayers with assets greater than their respective exemption amounts, planning using "marital", "disclaimer", and "irrevocable life insurance" trusts can provide estate tax savings and flexibility. In addition, since neither DC nor MD requires a decedent's estate to add back gifts made during one's life, lifetime gifts are an excellent state estate tax savings tool. [Note: payments for qualified educational and medical expenses are not reportable gifts if paid directly to the provider of the service.]

**Estate Documents:** We recommend that you review your estate planning documents every three to five years, whenever there is a change in law, or if you experience a major life event.

**STAY SAFE AND HAPPY HOLIDAYS FROM ALL OF US AT ABRAMSON & ASSOCIATES, LLC!**