Michael Mellberg
CERTIFIED PUBLIC ACCOUNTANT

Tax Toolkit 2021

Michael Mellberg: The Journey Of 2021

I have learned a lot during these uncertain times.

My office has kept hard-fast and steady no matter the challenges. We will continue to stay on top of the various tax law changes and help small businesses navigate this tricky stimulus environment we find ourselves in.

As we push through this wild economic journey there are many goals to consider. One might be survival of your business. If you are a small business owner in an industry that's suffered declining demand and you are still making it then you have already navigated through tough times.

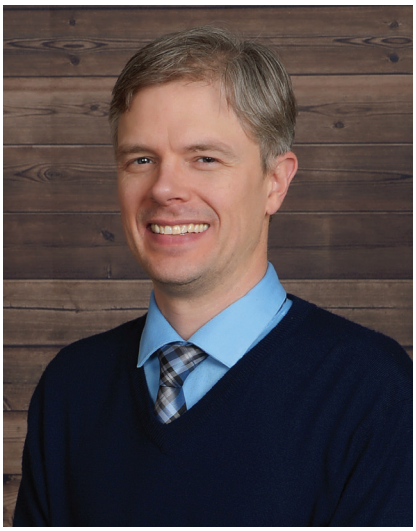
Therefore, you have the smarts to succeed. By now, as long as you are not risking assets that should have never been in harm's way to begin with, I think you are close to the other side.

Another goal might be adapting to significant changes in how business is being done remotely. If you are able to learn new methods of communication and make smart investments with your capital then you will transform your business and be more likely to succeed in the long run.

My practice is always learning the new tax laws as our first priority. In conjunction with this priority I am constantly keeping abreast with financial related matters that bring a stronger foundation than just tax.

However, building a practice around the tenants of tax will only make the financial pot deeper and richer. I am on my own journey and with that your journey will be augmented by the experience of my traveled road and the discoveries that unfold. Let's continue the journey.

Michael



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Lots Of New Rules; Let's Not Forget The SECURE Act

In the midst of PPP, fed and state health mandates we may have forgotten about the "SECURE Act". I would like to take a bit of time to highlight this topic. Previously I have put together information of various aspects regarding the Government's response to COVID 19 and have not had as much time to cover this important new law.

Many of us will need to understand and prepare for the loss of the "stretch IRA". The stretch IRA allowed any remaining balance left over in your IRA to your beneficiaries with tax beneficial treatment. This treatment was taxing the untaxed contributions and income those contributions earned over the "life expectancy" of the beneficiary.

The SECURE Act in its simplest terms requires a 10 year distribution period now.

What this means is the beneficiaries of your IRA, 401K or any other qualified accounts must potentially accelerate the distribution of the account so all assets have been moved out of the IRA. Those with smaller balances may not notice the effect of this new law.

Those with larger balances will likely end up having their beneficiaries pay more taxes than they would have under pre-SECURE Act law.

This law was passed to generate a lot of tax revenue for the US Government so it's clear some will lose out significantly through the departure of the "stretch IRA". There are some exceptions to this ten-year rule (eligible beneficiaries). They are as follows:

1. Surviving spouse treating as their own IRA or as inherited IRA
2. Minor child of the IRA owner
3. Disabled
4. Beneficiary not younger than 10 years or more

A few planning things to note:

1. You may defer all the distribution of the inherited IRA to any future nine years starting with the year following the original owner's death. However, by the tenth year your Required Minimum Distribution will be whatever is remaining in the account. There are possible tax timing strategies that one could employ by understanding this rule.
2. Disclaimers can be used as a potential tax strategy.
3. Trusts may be used as a planning tool

SECURE ACT HIGHLIGHTS

- Age of RMD moved from 70.5 to 72
- Up to $5000 penalty free from retirement plans for qualified births & adoptions
- Inherited IRA must draw down within 10 years
- Repeals a max age for IRA contributions-IRS contributions forever!!
- Kiddie tax rates back to parents' marginal rate (not fiduciary rates)

TAX WISE ACCOUNT TYPES

- HSA-(Triple tax benefit)
- Traditional IRA (tax deferred and deductible)
- 7.5% for medical instead of 10%
- Roth IRA (Tax deferred and not taxable)
- SEP IRA (tax deferred and deductible)
- Simple IRA (tax deferred and deductible)
- Solo 401K (tax deferred, deductible and most flexible)
- Safe Harbor 401K (tax deferred, deductible and highest account fees)
- 529 and prepaid tuition plans (tax deferred and flexible for parents for change in beneficiary)

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What To Do? Michael's FAQs (Frequently Asked Questions) Regarding Stimulus Impact

1. Full economic impact payment (2020 advance rebate credit) received; Not taxed and you do nothing
2. Partial economic impact payment received; We can pick up any remaining balance of the economic impact payment on your 2020 Form 1040 (filed in 2021) if your Adjusted Gross Income is less than the threshold amount:
   a. Single < $100K
   b. MFJ < $200K
3. Economic impact payment was not received; We can take the "rebate credit" on your 2020 Form 1040 (filed in 2021) if your Adjusted Gross Income is less than the threshold amount:
   a. Single < $100K
   b. MFJ < $200K
4. Took a 2020 'early' distribution from retirement plans and IRAs;
   a. You may choose to pay all the tax in 2020 without 10% penalty
   b. Or pay the tax over three years and include 1/3 of the distribution in each years gross income for 2020-2022.
   c. Generally you may also pay back the distribution over a three year period
5. No RMD taken in 2020; You do nothing for 2020 but you must start taking RMD's again for 2021
6. Is PPP Loan forgiveness taxable? If requirements of the PPP loan were met then you do not include the forgiven loan in income and you deduct the expenses that you incurred by spending the PPP loan funds.
7. EIDL advance; Does not reduce PPP loan forgiveness if money was used for additional allowed expenses. And the advance is also not taxable same as the PPP loan
8. Received unemployment benefits; State and Federal benefits are taxable.

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2020 Tax Preparation

You can rely on our team to help you prepare your taxes. But we do need your help. Below is a list of items you can put together to provide you with the most tax deductions possible.

Personal Taxes Checklist

Client documentation

* Recent IRS correspondence letters
* Completed Organizer (Custom organizer is now available on our Canopy Portal) Please call or email cweingarten@mellbergcpa.com to obtain custom organizer if you do not have an Internet connection.
* New clients of our firm should bring a minimum of prior three federal/state income tax returns
* Changes in dependent status. If new dependent(s) we need copy of social security card and Date of Birth
* W9s & 1099s required if payment for services (including part/materials) in course of business (including rentals)
* Stimulus checks received (it is not taxable/we can take the credit on the 2020 filing if stimulus check was not received or partial).

Income

* W2, W2Gs, Tips not reported to employer
* Investment income on Forms 1099-Int, 1099-OID, 1099-Div, 1099-B
* Pension Forms 1099-R, 1099-SSA, RRB-1099 (railroad)
* Settlement statements for sale or purchase of real property
* Form 1099-S for sale of real estate
* Rental Income and expenses
* K-1s from partnerships, S-Corporations, Estate & Trusts
* Other 1099 Form types; 1099-A, 1099-G(unemployment), 1099-C(canceled debt), 1099-Q(529dist.)
* Damage awards or injury awards
* Alimony-Only Amounts received as alimony for agreements on or before 12/31/2018
* Stock options; ISOs
* Any other income including Bitcoin gains, hobby income, prizes, Air BNB, foreign source
* Restricted Stock Units can have a 5 year deferral option
* Primary indebtedness exclusion down to $750K from $2M through Dec. 31, 2025

Deductions

* Retirement plan contributions: Trad IRA, Roth IRA, SEP IRA (Form 5498)
* Education loan interest
* Teachers classroom or professional development expense up to $250
* Out of pocket medical expenses (need 7.5% of AGI). Self-employed get premiums paid
* Form 1098 Qualified mortgage interest, points paid
* Property taxes paid on primary residence, second residence and investment properties
* Local sales tax paid on specified items and any state or local income tax for non-NV residents
* Charitable contributions, volunteer miles & you do not need to itemize
(note that personal itemized deductions are still deductible; however, you will need more than $12.4K-Single $18.650K-Head of Household $24.8K-MFJ)

Credits

* Dependent care expenses for working parents for children under 13
* Education expenses paid out of pocket on Form 1098-T
* Residential solar energy efficient improvements expense receipts>>>22% in 2021
* Opportunity zone investments
* Home office for business
* Other Sole Proprietor business credits
* Nonbusiness Energy Property-furnaces, boilers, biomass stoves, heat pumps, water heaters, central air conditioners, and circulating fans. Subject to lifetime cap of $500
* Recovery Rebate Credit if stimulus check was not received or only a partial check was received. Both stimulus payments will be eligle on the 2020 Form 1040

Tax Return Due Date
April 15, 2021

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