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FEBRUARY 2022

WHAT'S DIFFERENT ABOUT 2021 TAX RULES?

An accurate answer is short and is "not very much." After lengthy discussions of major changes in the federal tax law concerning ordinary and capital gains rates, the taxation of unrealized capital gains at death, abolition of stepped-up asset basis at death, repeal of the qualified business income deduction for trade or business income of passthrough entities, etc., no major federal law changes were enacted. Accordingly, federal individual, partnership, and corporate returns for 2021 will be prepared under rules very similar to 2020 returns.

Louisiana made a single major change, as discussed below, but deferred its effective date until 2022. Accordingly, 2021 Louisiana income tax rules are almost identical to 2020.

LOUISIANA INCOME TAX CHANGES FOR 2022

It might seem premature to consider changes in 2022 taxes at the onset of the 2021 tax return filing season. But many of us will think about 2022 estimated tax payments during the first quarter of this year. At this time, we do not know what will happen with 2022 federal income tax changes, but we do know something about Louisiana.

Last November, Louisiana voters approved a change in the Louisiana constitution that allowed the legislature to reduce the maximum individual tax rate from 6 percent to 4.75 percent and allowed the legislature to eliminate the Louisiana deduction for federal taxes paid, which it has done effective for 2022. The two main stated reasons for the Louisiana change were (1) to have a lower stated maximum tax rate making the state more attractive to businesses considering moving to Louisiana and (2) to avoid an automatic change in state revenue each time there is a federal tax law change. Another legislative change for 2022 Louisiana individual tax is the elimination of the Louisiana deduction of federal itemized deductions (except for medical) in excess of the federal standard deduction.

These changes, according, to its advocates, are expected to be revenue neutral overall for individual taxpayers. Most taxpayers, however, likely will realize a change. For those who use the standard deduction on their federal tax return (i.e., do not claim federal itemized deductions), taxpayers with income below $500,000 will likely see a decrease in their Louisiana tax. For taxpayers with income above $500,000 and claiming only the federal standard deduction, the 2022 Louisiana tax will likely increase over prior years. For example, those filing married joint returns with an income of $750,000 and claiming the federal standard deduction might experience an increase of approximately 6 percent in their 2022 Louisiana income tax. With an income of $1,000,000, the couple's Louisiana tax might increase by approximately 9 percent. On the other hand, a

(*Continued on reverse*)

couple reporting $250,000 of income and claiming the standard deduction might experience a decrease of approximately 5 percent in their Louisiana tax in 2022.

For taxpayers who can claim federal itemized deductions greater than the federal standard deduction, Louisiana tax will likely increase in 2022 over 2021. For example, a taxpayer with $250,000 income and $50,000 itemized deductions might realize about a 7 percent increase in Louisiana tax. A taxpayer with $750,000 of income and $50,000 of itemized deductions might incur a 9 percent increase. A taxpayer with $750,000 income, $75,000 charitable contributions, and $10,000 other itemized deductions would have a Louisiana income tax increase of 15 percent.

We do not know whether or not the change to our Louisiana constitution regarding tax law was wise. But by putting more discretion with the Louisiana legislature, we likely can expect more frequent changes to Louisiana tax law in the future.

WHO PAID THE 2019 TAX?

The Internal Revenue Service (IRS) has released data on individual income tax returns for 2019.

The IRS data for 2019 shows that taxpayers with adjusted gross income of $546,434 and above accounted for one percent of all taxpayers for that year, but they accounted for 20.1 percent of reported adjusted gross income for all taxpayers, which is down from 20.9 percent for 2018. Their share of the total income taxes paid decreased from 40.1 percent for 2018 to 38.8 percent. Since 2001, the top one percent's share of total income taxes paid has increased from 33 percent to the 38.8 percent paid for 2019.

For 2019, taxpayers with adjusted gross income of $154,589 and above accounted for 10 percent of all taxpayers for that year, but they accounted for 47.3 percent of reported adjusted gross income and 70.8 percent of tax paid for all taxpayers, which is down from 47.7 percent and 71.4 percent, respectively, for 2018.

For 2019, the top 50 percent of taxpayers paid 96.9 percent of the total income taxes, with the bottom 50 percent paying 3.1 percent. The top one percent of taxpayers paid more federal income taxes than the bottom 90 percent combined.

Individual taxpayers filed 148.3 million returns for 2019 reporting $11.9 trillion in adjusted gross income, up 2.8 percent or $319 billion, from 2018. The average individual income tax return filed for 2019 reported $80,156 of adjusted gross income and paid federal income taxes of $10,649.

UPDATING EMPLOYER IDENTIFICATION NUMBERS

Calling it a key security issue, the Internal Revenue Service (IRS) has recently urged those entities with Employer Identification Numbers (EINs) to update their IRS records if there has been a change in the responsible party or contact information. IRS regulations require EIN holders to update responsible party information within 60 days of any change by filing Form 8822-B, *Change of Address or Responsible Party – Business*. The IRS believes that it is critical that the IRS have accurate responsible party information in cases of identity theft or other fraud issues relating to EINs or business accounts.

The IRS further believes that many businesses, charities, and other entities with EINs have failed to update information when appropriate and required by IRS regulations. The IRS definition of a responsible party is the individual or entity who "controls, manages, or directs the applicant entity and the disposition of its funds and assets." Unless the applicant is a government entity, the IRS requires that the responsible party must be an individual, not another entity. If there is more than one responsible party, the entity may designate whichever party the entity wants the IRS to recognize as the responsible person.

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Tax & Business Alert

FEBRUARY 2022

GET MORE WORMS BY FILING YOUR TAXES EARLY

They say the early bird gets the worm. Early federal income tax filers may get a couple worms, which is a good thing in this metaphor.

Although it may seem like a quaint tradition to wait until the deadline — usually April 15, but actually April 18 in 2022 — there's more than one valid reason for getting your return completed and submitted well before this date.

PREVENT IDENTITY THEFT

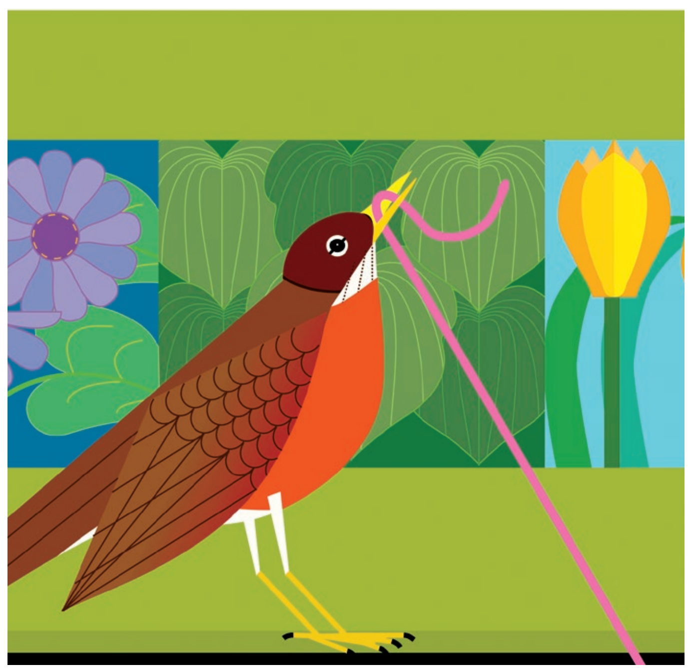
In one tax identity theft scheme, a thief uses another individual's personal information to file a fraudulent tax return early in the filing season and claim a bogus refund. The real taxpayer discovers the fraud when he or she files a return and is told by the IRS that the return is being rejected because one with the same Social Security number has already been filed for the tax year.

While the taxpayer should ultimately be able to prove that his or her return is the legitimate one, tax identity theft can be a hassle to straighten out and significantly delay a refund. Filing early may be your best defense: If you file first, it will be the tax return filed by a potential thief that will be rejected — not yours.

GET A POTENTIALLY EARLIER REFUND

Another reason to file early is you may put yourself closer to the front of the line to receive your tax refund (assuming you qualify for one). The IRS website still indicates that it expects to issue most refunds for the 2021 tax year within the usual 21 days, despite the massive pandemic-related delays that affected millions of 2020 tax returns.

The time is typically shorter if you file electronically and receive a refund by direct deposit into a bank account. Direct deposit also avoids the possibility that a refund check could be lost, stolen, returned to the IRS as undeliverable or caught in mail delays.



LOOK FOR YOUR DOCUMENTS

To file your tax return, you need your Form W-2s (if you're an employee) and Form 1099s (if you've worked as an independent contractor or "gig worker"). January 31 is the deadline for employers to issue 2021

SHOULD I WAIT TO FILE THIS YEAR?

As of this writing, some taxpayers may still be waiting to receive their 2020 federal income tax refunds. A few people (mostly on social media) have floated the idea of refusing to file their 2021 income taxes until they receive their refund. Is this a good idea?

No, it's not. Failing to file your return will only lead to bigger headaches later — possibly even penalties and criminal prosecution. Plus, if you qualify for a 2021 refund, you may receive that money *before* your 2020 refund. But the only way to get it is to file!

Form W-2s to employees and, generally, for businesses to issue Form 1099s to recipients of any 2021 interest, dividend or reportable miscellaneous income payments (including those made to independent contractors).

If you haven't received a W-2 or 1099 by February 1, first contact the entity that should have issued it. If that doesn't work, you can contact the IRS for assistance.

NEED HELP?

If you have questions or would like an appointment to prepare your return, please contact us. We can help you ensure you file an accurate return that takes advantage of all the breaks available to you. ■

3 FINANCIAL LESSONS OF THE PANDEMIC

The onset of the COVID-19 pandemic in March 2020 disrupted the personal finances of many families who were negatively affected by job losses, reduced income, sickness and other challenges. This included families across the economic spectrum and workers in a wide range of both blue- and white-collar industries.

The virus's rapid and continued spread — and the economic changes that followed — are vivid reminders of how vulnerable and unpredictable your family's personal finances may be. Now, almost two years later, the pandemic's impact persists. Here are three basic lessons to keep in mind:

1. Don't live above your means. In some ways, this is even more important for high earners than it is for those with more modest incomes. Those with higher incomes sometimes overcommit themselves financially by living a lavish lifestyle.

For example, they may buy large homes in high-end neighborhoods or buy expensive luxury automobiles that stretch their finances. Then, if they experience a financial emergency like a job loss or reduced work hours, they're suddenly unable to afford the lifestyle they've grown accustomed to.

2. Build up an adequate emergency savings fund. By living below your means, you may have extra money each month to build up an emergency savings fund. While every situation is different, many financial experts recommend saving between three- to six-months' worth of living expenses in an emergency fund.

Emergency savings should generally be kept in a liquid savings or money market account. Such an account probably won't generate a high return, but the money will be relatively safe and easily accessible if you need it for an emergency. Search online to find an account that offers the highest yield along with maximum liquidity.

3. Continuously map out a flexible career path. The time to make career contingency plans is before something like a worldwide pandemic disrupts the global economy and eliminates millions of jobs.

As the COVID-19 pandemic has shown, what may appear to be a secure job and career can vanish in the blink of an eye.

Some entrepreneurial individuals have turned career setbacks into opportunities by going back to school or starting new businesses. Others have left their jobs to start freelancing and consulting businesses, using their marketable skills and industry contacts to carve out profitable niches for themselves as self-employed professionals. This has driven a phenomenon known as "the Great Resignation."

Maybe you've seriously reconsidered your employment situation in recent months. Even if you've stayed put, it's to everyone's benefit to look carefully at his or her career path and head in a direction that both inspires and offers financial security.

The pandemic has been called a once-in-a-century event. Unfortunately, it feels to many of us as if it's already lasted a century. Keep these three financial lessons in mind as you continue to adopt to forthcoming challenges and opportunities. ■

COULD YOU HAVE TO PAY A PARENT'S NURSING HOME COSTS?

Given the steep cost of nursing homes, planning for long-term care is critical. This holds true not only for you, but also possibly for aging parents if they're still in your life.

One important question to consider is whether you could be held financially responsible for your parents' nursing home bills if they can't afford to pay them. The answer is: It's possible, but unlikely.

FILIAL RESPONSIBILITY LAWS

More than half of the states have "filial responsibility" laws, under which adult children are responsible for their parents' medical bills if their parents are unable to pay. These laws are rarely enforced, for several reasons. For one thing, nursing home expenses usually are covered by Medicare or Medicaid. Also, most filial responsibility laws require a court to consider the children's ability to pay before imposing liability.

In rare cases, however, an adult child may be held responsible for his or her parents' nursing home bills. This might be the case, for example, if a parent doesn't yet qualify for Medicare and has just enough financial resources to be disqualified from Medicaid.

It's also possible for Medicaid eligibility to be delayed by several months — or even years — if the applicant made certain gifts or other asset transfers within a five-year "look-back" period. Nursing homes may be able to seek payment from the adult children of a patient who has made such disqualifying asset transfers to them during the look-back period.

Even if you're not directly responsible for your parents' nursing home bills, you may end up contributing to their care indirectly through Medicaid's estate recovery process. This allows Medicaid to recoup funds it spent

on your parents' care from their estates after they die, which could thus reduce the amount of your inheritance.

FINANCIAL COMPLEXITIES

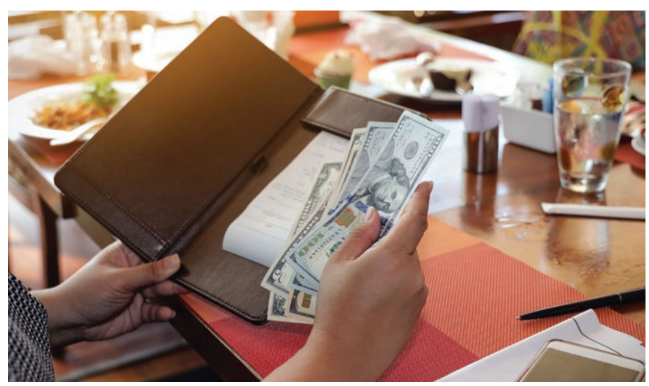
Caring for aging parents is a difficult task that can lead into many financial complexities. If your parents are receiving, or may soon receive, nursing home care and have limited funds, consult an attorney. A qualified legal advisor can help you determine whether you're potentially responsible for their bills. An attorney can also investigate whether your parents' assets are exposed to the Medicaid estate recovery process and whether strategies are available to limit your liability. ■

BUSINESSES CAN STILL DEDUCT 100% OF RESTAURANT MEALS

Business owners, 2022 is well underway. So, don't forget that a provision tucked inside the Consolidated Appropriations Act suspended the 50% deduction limit for certain business meals for calendar years 2021 *and* 2022. That means your business can deduct 100% of the cost of business-related meals provided by a restaurant.

As you may recall, previously you could generally deduct only 50% of the "ordinary and necessary" food and beverage costs you incurred while operating your business. Now you can deduct your full eligible costs. What's more, the legislation refers to food and beverages provided "by" a restaurant rather than "in" a restaurant. So, takeout and delivery restaurant meals also are fully deductible.

However, some familiar IRS requirements still apply. The food and beverages can't be lavish or extravagant under the circumstances. The meal must involve a current or prospective customer, client, supplier, employee, agent, partner or professional advisor with whom you could reasonably expect to engage in the due course of business. And you or one of your employees must be present when the food or beverages are served.



Entertainment expenses still aren't deductible, but meals served during entertainment events can be deductible if charged separately. If food or beverages are provided at an entertainment activity, further rules apply. In addition, in November of last year, the IRS issued guidance on per diems related to the temporary 100% deduction for restaurant food and beverages. Contact us for further details. ■