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FEBRUARY 2021

GEGE WEBB RETIRES

January 29, 2021 marked the close of GeGe Webb's 38 year plus career with the firm. GeGe was a major contributor to the well-being of our clients and our firm with her work in our Data Processing division. She will be missed by both. We are grateful for her service and wish her the very best in her retirement.

COVID-19 PAYMENTS AND LOUISIANA INCOME TAX

The Louisiana Department of Revenue (LDR) has announced its understanding of the Louisiana income tax implications of COVID-19 payments and loan forgiveness.

Paycheck Protection Program (PPP) – LDR states that *PPP loan forgiveness amounts are not* subject to Louisiana income tax.

Main Street Recovery Program – Federal CARES Act grants (up to $15,000) to eligible Louisiana small businesses *are subject to Louisiana state income tax*.

Economic Impact Payments – The CARES Act provided economic impact payments of $1,200 for certain qualifying individuals and $2,400 for qualifying married couples with an additional $500 per dependent child. CARES Act II provides for a second-round of payments of $600 for individuals and $1,200 for married couples and up to $600 for each qualifying child. These payments are refundable federal income tax credits, are not taxable income for federal purposes, and *are not subject to Louisiana state income tax*.

Frontline Worker Rebates – Louisiana established a one-time $250 rebate for eligible workers earning $50,000 per year or less and who spent at least 200 hours responding to or mitigating the COVID-19 crisis during the period March 22, 2020 through May 14, 2020. LDR has announced these rebates *are subject to Louisiana state income tax*.

Federal Pandemic Unemployment Compensation – The CARES Act provided a $600 weekly supplement unemployment benefit for an individual out of work related to the pandemic. CARES II provides up to $300 for weekly supplemental unemployment benefits. LDR has announced that these payments *are subject to Louisiana state income tax*.

UNEMPLOYMENT BENEFITS IDENTITY FRAUD

The Louisiana Workforce Commission has reported that pandemic-related unemployment benefits are the target of identity thieves. These thieves have used stolen personal information to claim fraudulent unemployment payments in multiple states including Louisiana. Taxpayers who receive a Form 1099-G tax form from the Louisiana Workforce Commission that reports unemployment

(Continued on reverse)

benefits they did not receive or overstates benefits they did receive are instructed to report the possibility of fraud using the Louisiana Department of Revenue Identity Theft affidavit at: https://revenue.*louisiana.gov/TaxForms/2000(7_12).pdf* and the Louisiana Workforce Commission suspected fraud form at: *https://www2.laworks.net/Forms/UI_Reports/Forms/UI_ReportSuspectedFraudForm.asp*.

Taxpayers should include information about the fraudulent 1099-G in their 2020 income tax return but, of course, should not include the reported-but-not-received amount in taxable income.

Required Minimum Distributions – Retirement Savings

The Internal Revenue Service has revised its tables used for required minimum distributions to allow lifetime distributions from qualified retirement plans and traditional IRAs to be spread over more years. Roth IRAs require no distributions during the life of the account owner. The required minimum distributions have been based on life expectancy tables last revised in 2002. The new tables, effective for 2022, are updated for current experiences and reflect life expectancies of one to two years longer than the 2002 tables.

As a result of COVID-19, minimum required distributions were suspended for 2020 but are in effect for 2021.

Under current law, the first minimum required distribution is for the year in which the participant becomes 72 years of age. Under the current tables, that first distribution is determined by dividing the account balance by 25.6 years. Under the new (effective January 1, 2022) life expectancy tables, a 72 year old will use a period of 27.4 years – that is, the first year distribution will be 3.65 percent rather than the prior distribution requirement of 3.91 percent. Distributions are determined based on the account balance as of the last day of the previous year. A 72 year old, under the old rules (effective through 2021), is required to take from a $1 million account $39,063 and under the new rules, will be required to take $36,496 or 6.57 percent less.

The distribution period decreases less than a full year for each year of life. An 82 year old, under the new tables, has a remaining distribution period of 18.5 years having diminished his distribution in 10 years by 8.9 years.

Who Paid the Tax – 2018?

The Internal Revenue Service (IRS) has released data on individual income tax returns for 2018 – the first year after the passage of the Tax Cut and Jobs Act in December 2017. The Act cut the top bracket for individuals from 39.6 percent to 37 percent.

The IRS data shows that the total share of the adjusted gross income (AGI) of the top one percent of taxpayers fell to 20.9 percent of the total from 21 percent in 2017. In spite of the reduction in the top rate and the diminution of the top one percent's' share of AGI, their share of the total income taxes paid increased from 38.5 percent in 2017 by 1.6 percent in 2018 to reach 40.1 percent (since 2001, the top one percent's share of total income taxes paid has increased from 33 percent to the new high of 40.1 percent in 2018).

The IRS report does not explain why the share of the tax paid increased as the top tax rate and share of income decreased. The major reasons for this tax increase in the face of "tax cut" probably include the elimination of the deductibility of local and state taxes above $10,000, the limitation on interest expense deduction, and the elimination of other itemized deductions. In summary, the rate reduction likely provided less benefit to the top one percent taxpayers than the cost to them of the deduction limitation and eliminations.

The top 50 percent of taxpayers paid 97.1 percent of the total income taxes, with the bottom 50 percent paying 2.9 percent.

Individual taxpayers filed 144.3 million returns in 2018 reporting $11.6 trillion in adjusted gross income up five percent or $627 billion from 2017.

2021 LIMITATION CHANGES

The following is a list of some 2021 major limitations regarding Social Security, payroll taxes, and income taxes (most resulting from inflation indexing) with 2020 limitations for comparison. Some very early planning for 2021 is suggested by the limitation changes. Where possible, those funding Health Savings Accounts, IRAs, and other tax-favored accounts might consider funding these accounts early to take advantage of the additional tax-sheltered investment time.

		2021	2020
Current Earnings Allowed Before Social Security Benefits Reduction:			
Worker Below Full Retirement Age		$ 18,960	$ 18,240
Worker Full Retirement Age and Above	- No Change -	Unlimited	Unlimited
(Full Retirement Age is 66 for those Born in 1954 or prior. For those Born Subsequent to 1954, Full Retirement Increases by a Few Months for Every Birth Year Until it Reaches 67 for People Born in 1960 or Later)			
Social Security Taxes:			
Old Age, Survivors, and Disability Insurance Income Portion of Tax:			
Maximum Base for Tax		$ 142,800	$ 137,700
Tax Rate (Employee and Employer)	- No Change -	6.20%	6.20%
Tax Rate (Self-employed)	- No Change -	12.40%	12.40%
Maximum Tax (Employee)		$ 8,854	$ 8,537
Maximum Tax (Self-employed)		$ 17,707	$ 17,075
Medicare Portion of the Tax:			
Tax Rate (Employee and Employer)	- No Change -	1.45%	1.45%
Tax Rate (Self Employed)	- No Change -	2.90%	2.90%
Tax Rate (Employee and Self Employed) – Earnings in Excess of $200,000 ($250,000 Joint Return)	- No Change -	0.9%	0.9%
Maximum Base and Maximum Tax	- No Change -	Unlimited	Unlimited
Louisiana Unemployment Tax:			
Maximum Base for Tax	- No Change -	$ 7,700	$ 7,700
Auto Standard Mileage Deduction:			
Business Use		56¢	59.5¢
Use for a Charitable Organization	- No Change -	14¢	14¢
Use for Medical or Moving		16¢	17¢
401(k) Maximum Elective Deferral:			
Below Age 50	- No Change -	$ 19,500	$ 19,500
Age 50 or Above	- No Change -	$ 26,000	$ 26,000
Maximum Contribution to Defined Contribution Retirement Plan:			
General Limit – All Plans		$ 58,000	$ 57,000
With 401(k) Feature (Age 50 and over)		$ 64,500	$ 63,500
Individual Retirement Account Contribution (IRAs):			
Below Age 50	- No Change -	$ 6,000	$ 6,000
Age 50 or Above	- No Change -	$ 7,000	$ 7,000
SIMPLE IRA Maximum Deferral:			
Below Age 50	- No Change -	$ 13,500	$ 13,500
Age 50 or Above	- No Change -	$ 16,500	$ 16,500
Maximum Sec. 179 Deduction of Certain Depreciable Property		$1,050,000	$1,040,000
Maximum Bonus Depreciation of Certain Property	- No Change -	Unlimited	Unlimited
Annual Gift Tax Exclusion Per Donee	- No Change -	$ 15,000	$ 15,000
Health Savings Account			
Maximum Contribution – Individual Coverage		$ 3,600	$ 3,550
Maximum Contribution – Family Coverage		$ 7,200	$ 7,100
Age 55 and Over Catch Up	- No Change -	$ 1,000	$ 1,000

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Tax & Business Alert

FEBRUARY 2021

WHY THE CHILD TAX CREDIT IS SO VALUABLE

If you're a parent, or soon will be, you're no doubt aware of how expensive it is to pay for food, clothes, activities and education. Fortunately, the federal child tax credit is available to help many taxpayers with children under the age of 17, and there's a dependent credit for those who are eligible with older children.

AN EXPANDED BREAK

Before the Tax Cuts and Jobs Act (TCJA) kicked in for the 2018 tax year, the child tax credit was $1,000 per qualifying child. But it was reduced for eligible married couples filing jointly by $50 for every $1,000 (or part of $1,000) by which their adjusted gross income (AGI) exceeded $110,000 ($75,000 for unmarried taxpayers). To the extent the $1,000-per-child credit exceeded a taxpayer's tax liability, it resulted in a refund of up to 15% of earned income (wages or net self-employment income) above $3,000. For taxpayers with three or more qualifying children, the excess of the taxpayer's Social Security taxes for the year over the taxpayer's earned income credit for the year was refundable. In all cases, the refund was limited to $1,000 per qualifying child.

Starting with the 2018 tax year, and applying through the 2025 tax year, the TCJA doubled the child tax credit to $2,000 per qualifying child under 17. If you're eligible, it also allows a $500 credit (per dependent) for any of your dependents who aren't qualifying children under 17. There's no age limit for the $500 credit, but tax tests for dependency must be met. Under the TCJA, the refundable portion of the credit is increased to a maximum of $1,400 per qualifying child. In addition, the earned income threshold is decreased to $2,500 (from $3,000 under prior law), which has the potential to result in a larger refund. The $500 credit for dependents other than qualifying children is nonrefundable.

The TCJA also substantially increased the "phaseout" thresholds to qualify for the credit. Starting with the 2018 tax year, the total credit amount allowed to a married couple filing jointly is reduced by $50 for every $1,000 (or part of a $1,000) by which

QUALIFYING CHILD MUST HAVE AN SSN

In order to claim the child tax credit for a qualifying child, you must include the child's Social Security number (SSN) on your tax return. Under previous law, you could also use an individual taxpayer identification number (ITIN) or adoption taxpayer identification number (ATIN).

If a qualifying child doesn't have an SSN, you won't be able to claim the $2,000 (or $1,400 refundable) credit. However, you can claim the $500 dependent credit for that child using an ITIN or an ATIN. The SSN requirement doesn't apply for non-qualifying-child dependents but, if there's no SSN, you must provide an ITIN or ATIN for each dependent for whom you're claiming a $500 credit.

their AGI exceeds $400,000 (up from the prior threshold of $110,000). The threshold is $200,000 for other taxpayers. So, if you were previously prohibited from taking the credit because your AGI was too high, you may now be eligible to claim the credit.

DON'T MISS OUT

The changes made by the TCJA generally increase the value of these credits and widen their availability to more taxpayers. Please contact us for further information or ask about it when we prepare your tax return. ■

CLAIMING THE HOME OFFICE DEDUCTION

Many people have found themselves working from home during the COVID-19 pandemic. If you're one of them, you might wonder, "Can I claim the home office deduction on my 2020 tax return?"

The short answer is: Only if you're self-employed. Employees can no longer claim home office expenses, and even self-employed taxpayers must follow strict rules to claim a deduction.

COPIOUS WRITE-OFFS

If you qualify, you can deduct the "direct expenses" of the home office. This includes the costs of painting or repairing the home office and depreciation deductions for furniture and fixtures used there.

You can also deduct the "indirect" expenses of maintaining the office. This includes the allocable share of utility costs, depreciation and insurance for your home, as well as the allocable share of mortgage interest, real estate taxes and casualty losses.

In addition, if your home office is your "principal place of business," the eligible costs of traveling between your home office and other work locations are deductible transportation expenses, rather than nondeductible commuting costs.

DEDUCTION TESTS

You can deduct your expenses if you meet any of these three tests:

1. Principal place of business. You're entitled to deductions if you use your home office, exclusively and regularly, as your principal place of business. Your home office is your principal place of business if it satisfies one of two tests. You satisfy the "management or administrative activities test" if you use your home office for administrative or management activities of your business, and you meet certain other requirements. You meet the "relative importance test" if your home office is the most important place where you conduct business, compared with all the other locations where you conduct that business.

2. Meeting place. You're entitled to home office deductions if you use your home office, exclusively and regularly, to meet or deal with patients, clients or customers. The patients, clients or customers must physically come to the office.

3. Separate structure. You're entitled to home office deductions for a home office, used exclusively and regularly for business, that's located in a separate unattached structure on the same property as your home. For example, this could be in an unattached garage, artist's studio or workshop.

You may also be able to deduct the expenses of certain storage space for storing inventory or product samples. If you're in the business of selling products at retail or wholesale, and if your home is your sole fixed business location, you can deduct home expenses allocable to space that you use to store inventory or product samples.

LIMITATIONS APPLY

The amount of home office deductions for self-employed taxpayers is subject to various limitations. Proper planning is key to claiming the maximum deduction for your home office expenses. Contact us if you'd like to discuss your situation. ■

CONSIDER TAXES BEFORE MOVING OUT OF STATE

With so many people working remotely these days, it's become common to think about moving to another state — perhaps for better weather or to be closer to family. Many retirees also look at an across-the-border move to better control living expenses. If you've found yourself harboring such notions, be sure to consider taxes before packing up your things.

IDENTIFY APPLICABLE TAXES

It may seem like a no-brainer to simply move to a state with no personal income tax, but you must consider *all* taxes that can potentially apply to state residents. In addition to income taxes, these may include property taxes, sales taxes, and estate or inheritance taxes.

If the states you're considering have an income tax, look at what types of income they tax. Some states, for example, don't tax wages but do tax interest and dividends. And some states offer tax breaks for pension payments, retirement plan distributions and Social Security payments.

PREPARE FOR DOMICILE

If you make a permanent move to a new state and want to escape taxes in the state you came from, it's important to establish legal domicile in the new location. Generally, your domicile is a fixed and permanent home location where you plan to return, even after periods of residing elsewhere.

Each state has its own rules regarding domicile. You don't want to wind up in a worst-case scenario: Two states could claim you owe state income taxes if you established domicile in the new state but didn't successfully terminate domicile in the old one. Additionally, if you die without clearly establishing

domicile in just one state, both the old and new states may claim that your estate owes income taxes and any state estate tax.

The simplest and most obvious way to establish domicile is to buy or lease a home in the new state and sell your previous home (or rent it out at market rates to an unrelated party). Then change your mailing address on passports, insurance policies and other important documents. Getting a driver's license in the new state and registering your vehicle there also helps. Be sure to take these and other steps as soon as possible after moving.

DO THE RESEARCH

When looking into whether the grass is greener in another state, do some research and contact us. We can help you avoid unpleasant tax surprises. ■

WHAT'S YOUR FINANCIAL PERSONALITY?

We all want to keep our finances on track, but doing so can be difficult without a clearly expressed plan. Everyone's strategy doesn't have to be complex, but it does generally need to cover two major facets: paying down debt and saving money.

If you're like most Americans, you probably have multiple credit cards, as well as perhaps a mortgage and student loan debt. The inevitable question becomes: Which facet should take priority? Should you pay off your debts first, then focus on saving for the short and long term? Or should you create a cash reserve before you tackle debt? Can you do both at the same time? The answer depends on you and your situation.

Often, the best first step in figuring out how to develop a personal financial plan for saving versus paying down debt requires an honest, introspective look at how you deal with money. Everyone has a financial personality that has developed over time based on

factors such as how you learned about money as a child, current occupational status and risk tolerance.

Think about what you do when you want something you don't have the cash to buy. Do you buy it anyway using credit, deny yourself the purchase entirely or wait until you've saved up the money? Your approach to spending and saving should point the way to developing a sound strategy that balances controlling debt — or, preferably, eliminating it — and building savings. ■