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SEPTEMBER 2021

PRESIDENT-ELECT BONNIE PESNELL

We are very pleased to announce that Bonnie Pesnell was recently installed as president-elect of the Shreveport Chapter of the Society of Louisiana Certified Public Accountants. Bonnie is a graduate of Louisiana Tech University and Ole Miss and joined the firm in 2016 after having previously worked in public accounting with a national firm. We appreciate Bonnie's services to our clients and our profession and feel fortunate to have her with the firm.

WHEN IS AN EXTENSION NOT AN EXTENSION?

As you might have noticed, the Internal Revenue Service has recently announced that, because of Hurricane Ida, all Louisiana resident taxpayers and businesses now have until January 3, 2022 to file extended 2020 federal tax returns. Also extended to January 3, 2022 is the third quarter 2021 federal estimated tax payment that would have been due September 15, 2021.

But, not so fast - Louisiana has rescheduled the due date of its extended 2020 tax returns (normally November 15, 2021) to January 3, 2022 only for residents and businesses located in 25 southeast Louisiana parishes that took the brunt of the hurricane, which does not include taxpayers located in Northwest Louisiana. Accordingly, for most individuals and businesses located in Caddo, Bossier, and nearby parishes, the federal extension to January 3, 2022 is not practical because the Louisiana tax return generally cannot be prepared independently from the preparation of the federal tax return. That means, for most of us in North Louisiana, the Louisiana tax return regular extended due date of November 15, 2022 is the latest practical date for preparation of both the 2020 federal and Louisiana tax returns. In other words, the additional federal extension to January 3, 2022 is not quite what it would appear to be. What the fed giveth, Louisiana mostly taketh away.

ALL THAT GLITTERS

Two quotes attributed to notable investor Warren Buffet about investing in gold are:

"With an asset like gold, for example, you know, basically gold is a way of going long on fear, and it's been a pretty good way of going long on fear from time to time. But you really have

(*Continued on reverse*)

to hope people become more afraid in the year or two years than they are now. And if they become more afraid, then you make money. If they become less afraid, you lose money. But the gold itself doesn't produce anything."

"You could take all the gold that's ever been mined, and it would fill a cube 67 feet in each direction. For what that's worth at current market prices, you could buy all of the farmland in the United States, plus seven Exxon-Mobils, plus a $1 trillion of walking-around money. Or, you could have a big cube of metal to touch and fondle occasionally. I'll take the farmland and the Exxon-Mobils."

After Richard Nixon ended the US dollar gold standard in 1971, inflation rose as did the price of gold, leading many to believe that investing in gold would be a hedge against inflation. During the fifty years since that change, the comparison between gold prices and the inflation rate has shown a widely inconsistent correlation. Also, during the last forty years, gold prices have gained an annual 3.6 percent return, whereas the S&P 500 over the same period has earned a 12.2 percent annual return rate. Accordingly, gold might very well glitter, but it has not shined next to a broad-based investment in US business or as an inflation hedge.

The Dreaded, Inscrutable IRS Notice

The Internal Revenue Service mails millions of notices to taxpayers each year, many (if not most) of which lack sufficient information to understand exactly what the IRS thinks the problem is. That notice, however, begins the taxpayer's and tax professional's often frustrating, time-consuming efforts in trying to understand and resolve the matter.

According to an article in the Wall Street Journal, the IRS mailed more than 11 million "math-error" notices this year from January 1 through mid-August compared to 765,000 during the same period in 2020. Millions of other IRS notice types are sent each year assessing additional tax, requiring identity verification before paying a refund, informing the taxpayer that more time is needed to process the return, etc. In many cases, the taxpayer's response to the first notice is not timely considered by the IRS, resulting in a more ominous follow-up notice for the same issue.

The same article indicated that nearly 14 million telephone calls were taken by the IRS from taxpayers during the same January through mid-August period, which sounds good before realizing that it represented only about eight percent of the 173 million callers who attempted to reach an IRS employee.

Granted, the IRS has a difficult job not only due to the incomprehensible volume of paper and electronic filings they must process and the pandemic disruptions, but also due to the overwhelming complexity of federal tax law (which is not their fault) that they are charged with administering. Nevertheless, that is our tax system, and responding to IRS notices seems to be an ever-increasing part of it.

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Tax & Business Alert

SEPTEMBER 2021

THE CURRENT STATE OF ESTATE PLANNING

Because of the current estate tax exemption amount ($11.7 million in 2021), many estates no longer need to be concerned with federal estate tax. Years ago, a much smaller exemption amount put more pressure on estate plans to avoid it. Now that many estates won't be subject to estate tax, you can devote more energy to other aspects of estate planning.

USE THE EXCLUSION

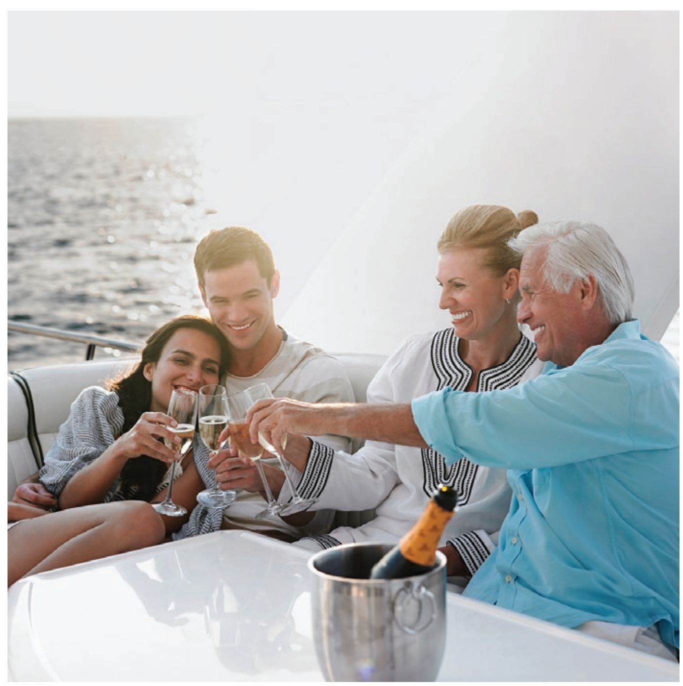
Among the benefits of using the gift tax annual exclusion to make transfers during your life is to save estate tax. This is because both the transferred assets and any post-transfer appreciation generated by those assets are removed from a donor's estate.

As mentioned, estate tax savings may not be an issue because of the large estate exemption amount. Further, making an annual exclusion transfer of appreciated property carries a potential income tax cost because the recipient receives the donor's basis upon transfer. Thus, the recipient could face income tax, in the form of capital gains tax, on the sale of the gifted property in the future. If there's no concern that an estate will be subject to estate tax, even if the gifted property grows in value, then the decision to make a gift should be based on other factors.

For example, gifts may be made to help a relative buy a home or start a business. But a donor shouldn't gift appreciated property because of the capital gain that could be realized on a future sale by the recipient. If the appreciated property is held until the donor's death, under current law, the heir will get a step-up in basis that will wipe out the capital gains tax on any pre-death appreciation in the property's value. (Note: The Biden administration has proposed ending this tax break, with some exceptions.)

LOOK TO SPOUSAL ACCOUNTS

In the past, spouses often undertook complicated strategies to equalize their estates so that each could take advantage of the estate tax exemption amount. Generally, a two-trust plan was established to minimize estate tax. "Portability," or the ability to apply the decedent's unused exclusion amount to the surviving spouse's transfers during life and at death, became effective for estates of decedents dying after 2010.



DON'T RELY ON AN OUTDATED STRATEGY

Some estate exclusion or valuation discount strategies to avoid inclusion of property in an estate may no longer be worth pursuing. It may be better to have the property included in the estate or not qualify for valuation discounts so that the property receives a step-up in basis. For example, the special use valuation — the valuation of qualified real property used for farming or in a business on the basis of the property's actual use, rather than on its highest and best use — may not save enough, or any, estate tax to justify giving up the step-up in basis that would otherwise occur for the property.

If the election is made, portability allows the surviving spouse to apply the unused portion of a decedent's applicable exclusion amount (the deceased spousal unused exclusion amount) as calculated in the year of the decedent's death. The portability election gives married couples more flexibility in deciding how to use their exclusion amounts.

IDENTIFY STRATEGIES

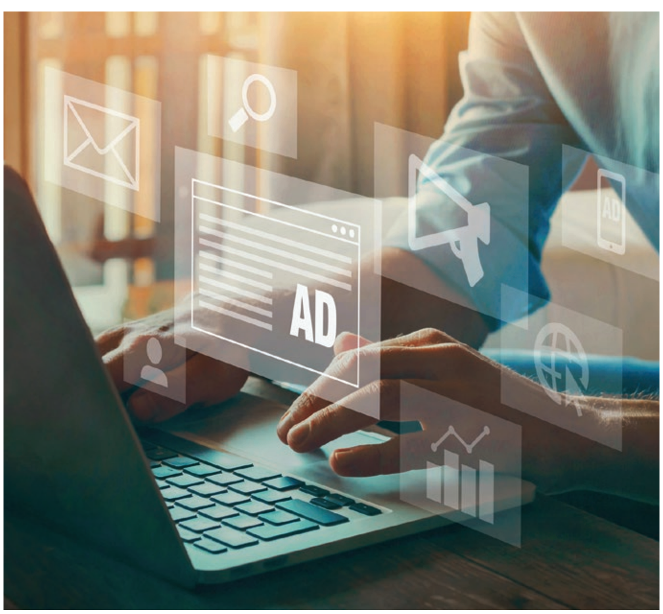
Although the federal estate tax is currently less onerous, estate planning is still a complex yet critical task. Contact us to discuss these strategies and how they might relate to your estate plan. ■

WHICH BUSINESS WEBSITE COSTS ARE DEDUCTIBLE?

Every business needs a website, but it's not always easy to determine which costs of running one are deductible. Fortunately, established rules that generally apply to the deductibility of more long-standing business costs provide business owners with a basic idea of how to anticipate and handle the tax impact of a website. And the IRS has issued guidance that applies to software costs.

HARDWARE CONSIDERATIONS

Hardware costs generally fall under the standard rules for depreciable equipment. Specifically, once website-related assets are up and running, you can deduct 100% of the cost in the first year they're placed in service (before 2023). This favorable treatment is allowed under the 100% first-year bonus depreciation break.



In later years, you can probably deduct 100% of these costs in the year the assets are placed in service under the Section 179 first-year depreciation deduction privilege. However, Sec. 179 deductions are subject to several limitations.

For the 2021 tax year, the maximum Sec. 179 deduction is $1.05 million, subject to a phaseout rule. Under the rule, the deduction is phased out if more than a specified amount of qualified property is placed in service during the year. The threshold amount for 2021 is $2.62 million.

There's also a taxable income limit. Under it, your Sec. 179 deduction can't exceed your business taxable income. In other words, Sec. 179 deductions can't create or increase an overall tax loss. However, any Sec. 179 deduction amount that you can't immediately deduct is carried forward and can be deducted in later years (to the extent permitted by the applicable limits).

SOFTWARE ISSUES

Similar rules apply to off-the-shelf software that you buy for your business. However, software license fees are treated differently from purchased software costs for tax purposes. Payments for leased or licensed software used for your website are currently deductible as ordinary and necessary business expenses.

An alternative position is that your software development costs represent currently deductible research and development costs under the tax code. To qualify for this treatment, the costs must be paid or incurred by December 31, 2022. A more conservative approach would be to capitalize the costs of internally developed software. Then you would depreciate them over 36 months.

If your website is primarily for advertising, you can also currently deduct internal website software development costs as ordinary and necessary business expenses.

Are you paying a third party for software to run your website? This is commonly referred to as "software as a service." In general, payments to third parties are currently deductible as ordinary and necessary business expenses.

STILL IMPORTANT

So much of business today seems to happen in virtual places other than your website — such as social media, apps and teleconferencing calls. Nonetheless, a central website where you can provide a solid overview of your company is still important. We can help you determine the appropriate tax treatment of website costs. ■

ENERGIZE TAX SAVINGS WITH AN EV CREDIT

Electric vehicles (EVs) are increasing in popularity all the time — and more of them are qualifying for a federal tax credit. In fact, the IRS added several more eligible models over the summer.

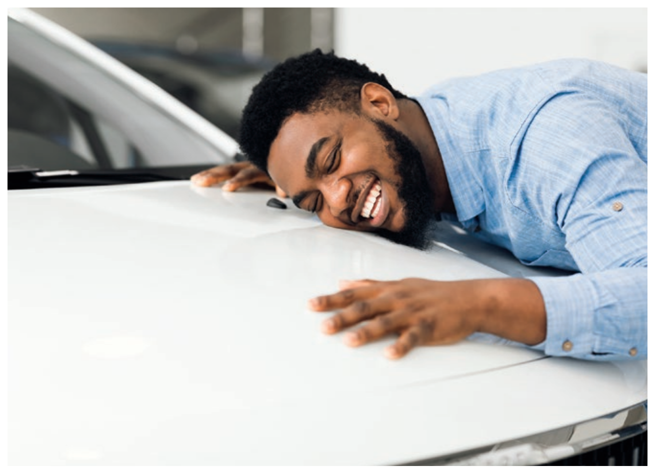
The tax code provides a credit to buyers of qualifying plug-in electric drive motor vehicles, including passenger vehicles and light trucks. The credit is equal to $2,500 plus an additional amount, based on battery capacity, that can't exceed $5,000. Therefore, the maximum credit allowed for a qualifying EV is $7,500.

EV DEFINITION

For purposes of the tax credit, a qualifying vehicle is defined as one with four wheels that's propelled to a significant extent by an electric motor, which draws electricity from a battery. The battery must have a capacity of not less than four kilowatt hours and be capable of being recharged from an external source of electricity.

The credit may not be available because of a per-manufacturer cumulative sales limitation. Specifically, it phases out over six quarters beginning when a manufacturer has sold at least 200,000 qualifying vehicles for use in the United States (determined on a cumulative basis for sales after December 31, 2009). For example, Tesla and General Motors vehicles are no longer eligible for the tax credit.

The IRS provides a list of qualifying vehicles on its website and, as mentioned, recently added more eligible models. You can access the list here: https://bit.ly/2Yrhg5Z.



ADDITIONAL POINTS

There are some additional points about the plug-in electric vehicle tax credit to keep in mind. It's allowed only in the year you place the vehicle in service, and the vehicle must be new. Also, an eligible vehicle must be used predominantly in the United States and have a gross weight of less than 14,000 pounds.

There's a separate 10% federal income tax credit for the purchase of qualifying electric two-wheeled vehicles manufactured primarily for use on public thoroughfares and capable of at least 45 miles per hour (in other words, electric-powered motorcycles). It can be worth up to $2,500. This electric motorcycle credit was recently extended to cover qualifying 2021 purchases.

BASIC RULES

These are only the basic rules. There may be additional incentives provided by your state. Contact us if you'd like to receive more information about the federal plug-in electric vehicle tax break. ■

SAFEGUARDING YOUR CRITICAL DOCUMENTS

So many of the documents we all use in our personal lives these days are digital. However, there are still many that you should retain as hard copies. These include birth, marriage and death certificates; Social Security cards; tax returns; passports; and estate planning documents, such as deeds and wills.

Be sure to safeguard these records from physical harm — literally. If you're going to keep them at home, invest in a safe that's both fireproof and waterproof. Better yet, consider storing them or copies of them in a safe deposit box at a reputable bank.

You can keep digital documents in a safe or safe deposit box as well. Save them on a password-protected device such as a flash drive or external hard drive and add them to your protected paper files. Of course, you can store digitized documents in the cloud, but it's a good idea to have "redundant backups" in case the cloud service fails or gets hacked.

If you do invest in a fireproof, waterproof safe, consider stashing some cash in it as well. In the event of a major disaster, ATMs may not work, and banks could close for an extended period. Exactly how much you should set aside depends on your risk level and your need for basics such as food and lodging, medical supplies, gasoline, and groceries. ■