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JANUARY 2022

CHARITABLE CONTRIBUTIONS

The enclosed *Tax & Business Alert* includes an article on page 3 reminding us that to deduct a charitable donation of $250 or more, a taxpayer must timely obtain the prescribed written acknowledgment from the recipient organization.

What the article does not mention are the specific elements that the organization's written acknowledgment must include. They are as follows:

1. the name of the organization,
2. the amount of a cash contribution,
3. a description (but not value) of a non-cash contribution,
4. a statement that no goods or services were provided by the organization, if that is the case,
5. a description and good faith estimate of the value of goods or services, if any, that organization provided in return for the contribution, and
6. a statement that goods or services, if any, provided by the organization consisted entirely of intangible religious benefits, if that was the case.

The element that we see most commonly missing from an organization's letter or other receipt is the required statement that no goods or services were provided by the organization. If you receive an acknowledgment letter from a charity that is missing that language, you should ask them for a revised letter. In fact, the IRS requires that you have that revised letter before filing your tax return to claim the deduction.

Another rule not mentioned in the article is that separate contributions to an organization of less than $250 are not aggregated for this purpose. For example, if you give weekly to your church less than $250, the above substantiation requirements do not apply even though the total contributed for the year is $250 or more. In that case, you need only have a record of the contributions consisting of either a bank record (e.g., cancelled check) or written statement or receipt from the organization showing the name of the charity, date, and amount.

LOUISIANA ADDS FILING REQUIREMENT

Effective for calendar year 2021, any business that is required to file federal Form 1099-NEC (*Payments to Independent Contractors*) with the Internal Revenue Service for services provided in Louisiana must file a copy of the 1099-NEC with the Louisiana Department of Revenue. The deadline for filing with Louisiana is on or before February 28 of each year for the preceding calendar year. Accordingly, the first annual filing must be filed on or before February 28, 2022 for the calendar year 2021.

ONE MORE "TOO GOOD TO BE TRUE"

In past newsletters we have mentioned the well-worn adage "If it sounds too good to be true, it probably is." Over the years, there have been numerous tax schemes promoted, tried, and failed such as the "pure trust," which was purported to constitutionally exclude from taxation a business or income-producing assets held by the trust. That scheme was effectively shut down a couple of decades ago by the IRS, and some of its promoters served time.

Many other tax schemes, past and present, attempt to apply a legitimate tax benefit provision in the law to an arrangement that was not intended by Congress and usually with a strained interpretation of the law. Each year the IRS announces on its website its "Dirty Dozen" tax scams, which currently include syndicated conservation easements and micro-captive insurance arrangements, both of which have favorable tax features designed to promote legitimate business use. However, some promoters have designed investments using these tax-favored transactions and arrangements that the IRS assert are primarily tax-motivated, do not align with the law's intent, and, accordingly, are abusive.

Just before Christmas, the IRS announced an agreement with Malta intended to put a stop to the "Maltese Pension." Because of a quirk in the US treaty with Malta, US citizens were purportedly able to transfer a large amount of highly appreciated assets (e.g., start-up equity securities, real estate, cryptocurrency, etc.) to a Maltese pension account (which could be located and managed by a US financial institution). The appreciated assets could then be sold within the account free of US or Malta taxation. In addition, under the Malta tax rules, which the US would have to follow under the treaty, the account owner could withdraw "excess" pension funds free of tax. Too good to be true?

In a late December announcement following an August 2021 article in The Wall Street Journal, the IRS announced an agreement with Malta effectively putting a stop to this scheme by limiting such Malta pension accounts to qualified rollovers from a US pension account and, generally, to plans that limit contributions to amounts determined by reference to employment or self-employment activities. This will no doubt come as a serious disappointment to those who have already participated in these transactions and will now face taxation of what they had thought to be tax-free.

Too good to be true? Yes.

2022 LIMITATION CHANGES

The following is a list of some 2022 major limitations regarding Social Security, payroll taxes, and income taxes (most resulting from inflation indexing) with 2021 limitations for comparison. Some very early planning for 2022 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.

		2022	2021
Current Earnings Allowed Before Social Security Benefits Reduction:			
Worker Below Full Retirement Age		$ 19,560	$ 18,960
Worker Full Retirement Age and Above	- No Change -	Unlimited	Unlimited
(Full Retirement Age is 66 for those Born in 1943 through 1954. For those Born After 1954, Full Retirement Age Increases by Two 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		$ 147,000	$ 142,800
Tax Rate (Employee and Employer)	- No Change -	6.20%	6.20%
Tax Rate (Self-employed)	- No Change -	12.40%	12.40%
Maximum Tax (Employee)		$ 9,114	$ 8,854
Maximum Tax (Self-employed)		$ 18,228	$ 17,707
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		58.5¢	56¢
Use for a Charitable Organization	- No Change -	14¢	14¢
Use for Medical or Moving		18¢	16¢
401(k) Maximum Elective Deferral:			
Below Age 50		$ 20,500	$ 19,500
Age 50 or Above		$ 27,000	$ 26,000
Maximum Contribution to Defined Contribution Retirement Plan:			
General Limit – All Plans		$ 61,000	$ 58,000
With 401(k) Feature (Age 50 and over)		$ 67,500	$ 64,500
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		$ 14,000	$ 13,500
Age 50 or Above		$ 17,000	$ 16,500
Maximum Sec. 179 Deduction of Certain Depreciable Property		$1,080,000	$1,050,000
Maximum Bonus Depreciation of Certain Property	- No Change -	Unlimited	Unlimited
Annual Gift Tax Exclusion Per Donee		$ 16,000	$ 15,000
Health Savings Account			
Maximum Contribution – Individual Coverage		$ 3,650	$ 3,600
Maximum Contribution – Family Coverage		$ 7,300	$ 7,200
Age 55 and Over Catch Up	- No Change -	$ 1,000	$ 1,000

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Tax & Business Alert

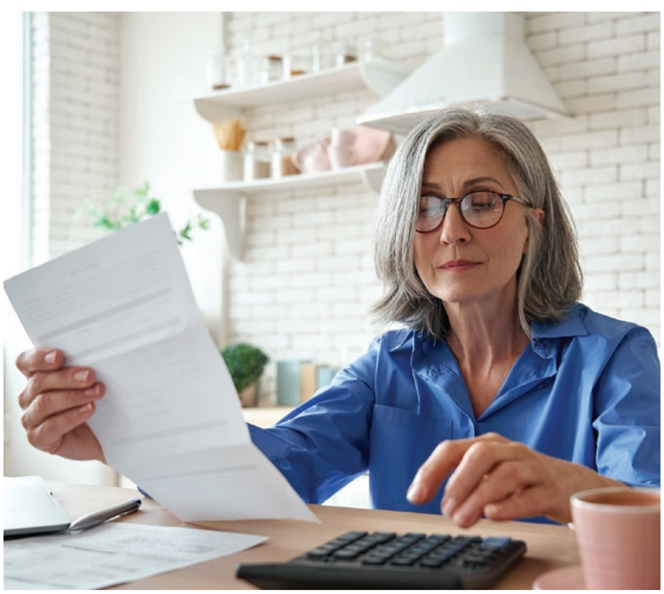
JANUARY 2022

HANDLE RETIREMENT PLAN ROLLOVERS WITH CARE

Because of the COVID-19 pandemic and other reasons, job upheaval has become common among Americans over the past year or so. If you may soon change employers, handle your retirement plan with care.

LEAVE AS IS

If your plan with your previous employer has a balance of at least $5,000, it must allow you the option to leave your money there. This is an easy option, but it has its risks. Your ex-employer may restrict your ability to change your portfolio, take distributions or update beneficiaries. As a nonactive participant, you may also incur higher fees and receive less-effective plan communications than active employees.



However, you may want to consult with your financial advisor before liquidating your holdings if your previous employer offers a hard-to-duplicate investment option.

ROLL IT OVER

Rolling over your savings into your new employer's plan can help you avoid potential downsides of staying with the old plan or tracking multiple plans. But before you take this step, review the investment options of your new employer's plan.

Beware of fees or charges you may incur when rolling your old plan balance into your new plan. If there are fees, you might want to keep your existing savings in the old plan or roll your account balance into an IRA while contributing to your new employer's plan.

If, on the other hand, a rollover into your new employer's plan seems like the better option, confirm that the plan accepts rollovers. Assuming that's the case, request a direct "trustee-to-trustee" rollover. Otherwise, your old employer will mail a distribution check to you, minus a mandatory 20% tax withholding. You then have just 60 days to deposit these funds in your new plan. You also must cover the 20% that was withheld for taxes with other funds to achieve a 100% rollover.

Finally, if you fail to meet this 60-day deadline, or if you don't have the cash available to cover the taxes that were withheld, you must pay income tax on the amount that wasn't rolled over. If you're under age 59½, you may incur a 10% early withdrawal penalty.

IRA TRANSFER

IRAs typically provide a much wider array of investment options than most 401(k) plans do. Many financial services companies will accept a direct transfer of your retirement savings, which can streamline the process and avoid potentially costly mistakes.

In some cases, your assets can be transferred "in kind," meaning you don't need to sell certain investments to hold them in your IRA. Be aware, however, that you may be charged an annual fee after rolling your savings into an IRA.

CASH OUT

Unless you need the money to pay bills, consider the tax consequences before cashing out your retirement savings. Distributions will be taxed as ordinary income and, if you're under age 59½, you may have to pay an additional 10% penalty on any withdrawals.

There are exceptions to the penalties — for example, in cases of economic hardship or if you separate from service at age 55 or older. But even if you qualify for an exception, you'll owe ordinary income tax on the distribution.

PROTECT THE EGG

Don't let job-switching activities distract you from protecting your nest egg! Contact us for help. ■

COULD YOUR COMPANY USE A HEAVY SUV?

Many businesses need to invest in heavy sport utility vehicles (SUVs) to transport equipment and provide timely services. Fortunately, they may be able to claim valuable tax deductions for the purchases. If you're thinking about buying one, be sure to brush up on the tax rules first.

BONUS DEPRECIATION

Under current law, 100% first-year bonus depreciation is available for qualified new and used property that's acquired and placed in service in a calendar year. New and pre-owned heavy SUVs, pickups and vans acquired and put to business use in 2021 are eligible for 100% first-year bonus depreciation.

The only requirement is that you must use the vehicle more than 50% for business. If your business usage is between 51% and 99%, you can deduct that percentage of the cost in the first year the vehicle is placed in service. This generous tax break is available for qualifying vehicles that are acquired and placed in service through December 31, 2022.

The 100% first-year bonus depreciation write-off will reduce your federal income tax bill and self-employment tax bill, if applicable. You might get a state tax income deduction, too.

WEIGHT REQUIREMENT

This option is available only if the manufacturer's gross vehicle weight rating (GVWR) is above 6,000 pounds. You can verify a vehicle's GVWR by looking at the manufacturer's label, usually found on the inside edge of the driver's side door where the door hinges meet the frame.

These tax benefits are subject to adjustment for non-business use. And if business use of an SUV doesn't exceed 50% of total use, the vehicle won't be eligible for the expensing election, and would have to be depreciated on a straight-line method over a six-tax-year period. Detailed, contemporaneous expense records are essential in case the IRS challenges your business-use percentage.

Keep track of the miles you're driving for business purposes, compared to the vehicle's total mileage for the year. Recordkeeping is easier today because of the many mobile apps designed for this purpose. You could also simply keep a handwritten calendar or mileage log in your vehicle and record details as business trips occur.

THE RIGHT MOVES

Are you considering buying an eligible vehicle and placing it in service in 2022? Before signing the sales contract, consult with us to help evaluate the right business tax moves. ■

TRACKING DOWN DONATION SUBSTANTIATION

If you're like many Americans, letters from your favorite charities may be appearing in your mailbox acknowledging your 2021 donations. But what happens if you haven't received such a letter? Can you still claim a deduction for the gift on your 2021 income tax return? It depends.

WHAT'S REQUIRED

To support a charitable deduction, you need to comply with IRS substantiation requirements. This generally includes obtaining a contemporaneous written acknowledgment from the charity stating the amount of the donation if it's cash. If the donation is property, the acknowledgment must describe the property, but the charity isn't required to provide a value. The donor must determine the property's value.

"Contemporaneous" means the earlier of the date you file your tax return or the extended due date of your return. So, if you donated in 2021 but haven't yet received substantiation from the charity, it's not too late — as long as you haven't filed your 2021 return. Contact the charity and request a written acknowledgment.

Keep in mind that, if you made a cash gift of under $250 with a check or credit card, generally a canceled check, bank statement or credit card statement is sufficient. However, if you received something in return for the donation, you generally must reduce your deduction by its value — and the charity is required to provide you a written acknowledgment as described earlier.

DEDUCTION FOR NON-ITEMIZERS

Generally, taxpayers who don't itemize their deductions (and instead claim the standard deduction) can't claim a charitable deduction. Under the CARES Act, individuals who didn't itemize deductions could claim a federal income tax write-off for up to $300 of cash contributions to IRS-approved charities for the 2020 tax year.

Fortunately, this tax break was extended to cover $300 of cash contributions made in 2021 under the Consolidated Appropriations Act. The law also doubled the deduction limit to $600 for married joint-filing couples for cash contributions made in 2021.

LET US ASSIST YOU

Additional substantiation requirements apply to some types of donations. We can help you determine whether you have sufficient substantiation for the donations you hope to deduct on your 2021 income tax return — and guide you on the substantiation you'll need for gifts you're planning this year to ensure you can enjoy the desired deductions on your 2022 return. ■

TAX CALENDAR

January 18
Individual taxpayers' final 2021 estimated tax payment is due.

January 31
File 2021 Forms W-2 ("Wage and Tax Statement") with the Social Security Administration and provide copies to employees.

- File 2021 Forms 1099-NEC ("Nonemployee Compensation") (paper or electronic) reporting nonemployee compensation payments to the IRS and provide copies to recipients, along with a related Form 1096 ("Annual Summary and Transmittal of U.S. Information Returns") to the IRS.
- Most employers must file Form 941 ("Employer's Quarterly Federal Tax Return") to report Medicare, Social Security and income taxes withheld in the fourth quarter of 2021. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until February 10 to file the return. Employers who have an estimated annual employment tax liability of $1,000 or less may be eligible to file Form 944 ("Employer's Annual Federal Tax Return").
- File Form 940* ("Employer's Annual Federal Unemployment [FUTA] Tax Return") for 2021. If your undeposited tax is $500 or less, you can either pay it with your return or deposit it. If it's more than $500, you must deposit it. However, if you deposited the tax for the year in full and on time, you have until February 10 to file the return.
- File Form 943* ("Employer's Annual Federal Tax Return for Agricultural Employees") to report Social Security, Medicare and withheld income taxes for 2021. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.
- File Form 945* ("Annual Return of Withheld Federal Income Tax") for 2021 to report income tax withheld on all nonpayroll items, including backup withholding and withholding on pensions, annuities, IRAs, etc. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.

February 28
File 2021 Form 1099-MISC ("Miscellaneous Income") reporting certain payments to certain persons and provide copies to recipients, along with a related Form 1096 ("Annual Summary and Transmittal of U.S. Information Returns") to the IRS.

March 15
2021 tax returns must be filed or extended for calendar-year partnerships and S corporations. If the return isn't extended, this is also the last day for those types of entities to make 2021 contributions to pension and profit-sharing plans.

*At press time, the IRS hadn't yet released instructions for 2021 Forms 940, 943 and 945. The due dates shown are based on those for 2020.

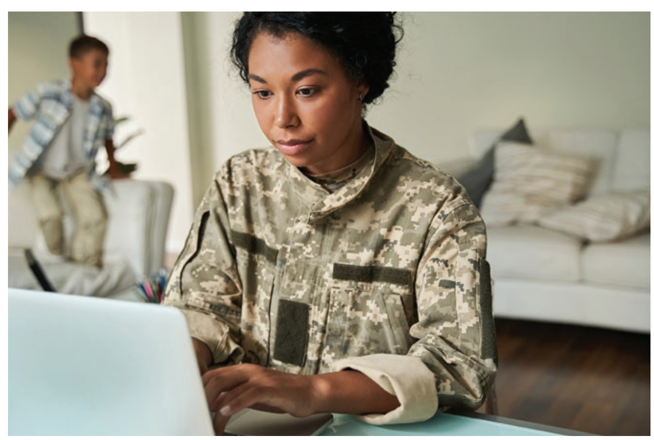
IMPOSTER FRAUD TARGETS MILITARY MEMBERS AND VETS

According to the Federal Trade Commission, veterans lost approximately $60 million to fraud in 2020. Among the greatest fraud threats to this group is "imposter" fraud.

In this scheme, a criminal calls, emails or texts potential victims and pretends to be working for the Veterans Administration (VA) or another government agency. Perpetrators might claim they need personal information, such as Social Security or bank account numbers, to authorize the release of benefits. Instead, they use that data to commit identity theft.

Other times, perpetrators pose as financial advisors who convince vets to exchange their pensions for up-front cash payouts. In most cases, the payouts are worth less than the pensions. Or fraudulent advisors may tout special benefits programs that can be accessed only by paying a fee. After paying, the fraud targets learn the programs don't exist.

If you're a military member or vet, don't provide any information about yourself until you've independently confirmed the identity of anyone claiming to be a



government official. Call the agency's official phone number to inquire about the matter.

Never give anyone Social Security, bank account or credit card numbers over the phone or in response to an electronic communication. Legitimate representatives from the VA, IRS or state unemployment agencies won't ask for them. Contact us with questions about these or any other form of financial fraud. ■