

Happy New Year!

As we end 2021 and look on the horizon of a new year, we hope you have taken some time to reflect on the wonderful things you have accomplished over the past year, celebrated the accomplishments of those around you, and have begun goal-setting for 2022. We thank you for the continued trust you place in us and wish you a successful and prosperous new year!

Engagement Letters

Please Download, Print, Fill Out and Sign our Engagement Letter.

Return this letter with your tax information for each tax return that we prepare for you.
We cannot begin work on your return until we have a signed Engagement Letter.

www.hinesandcompanypc.com/forms

Hines and Company Deadlines

To assure that your returns are completed on or before the due date, we must receive substantially all of your information as follows:

February 10th – Partnership, S-Corp Returns

March 10th – C-Corp, Individual & Trust Returns

Additionally, if we are missing information for your return **10 days** prior to the return due date, your return will be extended and completed after the deadline. This allows ample time for us to complete your return accurately.

Quarterly Estimated Tax Payment Reminders

We have added a question to our individual engagement letter so you can let us know if you want us to continue to mail quarterly estimated tax payment reminders to you. In the past we have done this for everyone, however we know that there are clients who don't need the reminders. There are copies of your estimated tax payments in your tax package with your tax return.

E-Signatures and Increased Security for Sending Documents

For the 2022 tax season (2021 returns), we will be using the e-signature feature of our tax software again. This will allow you to securely sign your returns right from your computer, tablet, or smartphone. The IRS requires knowledge-based authentication (ID Check) for e-signatures, so we are no longer allowed to fax/email signature authorizations as we have done in the past.

Due to an increase in occurrences of identity theft, please be aware that if you call our office to request additional copies of past year tax returns, we will need verification of your identity by asking a series of questions. While we realize many of you are long-time, loyal clients that are recognized by our staff, you may encounter staff by phone that does not know you. Please be patient as this measure is strictly to protect you and your identity. Additionally, we provide a printed copy of your return upon completion each year which we encourage you to keep in a safe place. You can access our retention guide here: <https://www.hinesandcompanypc.com/retention-guide>.

Also, for security purposes, we are increasing security requirements for downloading documents that we send via Sharefile – we have changed our security so that everyone receiving documents via Sharefile will need to set up a login to access files. **If you are having issues accessing Sharefile, please let your preparer know so we can reset your account.**

Is the IRS Broken?

Excerpts from the letter David W Tolleth, President of the National Association of Enrolled Agents (NAEA), wrote to Janet Yellen, the Secretary of the Treasury on behalf of thousands of tax professionals:

It is with grave concern that based on input from front-line tax practitioners in the service of American taxpayers I must report to you the poor condition of the IRS. In fact, it should be considered broken ...

While COVID-19 was the final blow in creating this situation, it was a gradual process brought about by a series of stress events on the IRS over ... decade[s] which have chipped away at the foundation of our tax administration system. These events include political attacks from policymakers, chronic under-funding, government shutdowns, and a wave of retirements of experienced employees and executives. The leadership seems at times to be frozen in indecision brought about by the changing winds of politics and lawyers that impede forward progress. All while Congress mandated the IRS to administer even more complex social service policies ... with little or no additional funding.

For the federal tax administration system to work smoothly, all parts of the agency must be able to effectively do their jobs. Currently, millions of tax returns – some as much as two years old – have still not been processed into the system. The IRS, however, has chosen to mail computer driven notices and letters, despite not knowing whether they are accurate. Additionally, we are hearing consistently that taxpayers who have filed for extensions are receiving non-filing letters from the agency. Further, many taxpayers are receiving nonsensical math error letters which causes unnecessary fear and anxiety, especially among the elderly and the low income.

From the perspective of seasoned tax practitioners, resolving these, and other problems, has now become nearly impossible to achieve. For instance, only 9 percent of callers reaching out to the IRS for answers, or to resolve notices and letters, are able to reach a live customer service representative. Unfortunately, the situation for their tax representatives is not any better...

Failure to fix the pipeline at each level – return processing, notices and letters, phones and CAF, and collection – will continue to harm taxpayers and endanger tax collection going forward.

We continue to do our best to answer questions and advocate for you, however working with the IRS is taking longer and longer, and it doesn't seem that there is an end in sight. We know that it is extremely frustrating, but please know we are doing everything we can under the circumstances.

100% Meal Deduction for 2021 and 2022

As part of the Consolidated Appropriations Act (2021), the deductibility of business meals is changing. **Food and beverages will be 100% deductible if purchased from a restaurant in 2021 and 2022.** This temporary 100% deduction was designed to help restaurants, many of which have been hard-hit by the COVID-19 pandemic.

Entertainment expenses, like a sporting event or tickets to a show, are still non-deductible. However, team-building activities for employees are deductible.

Virtual Currency

Many taxpayers are using Bitcoin, Ethereum, Ripple and other virtual currencies/cryptocurrencies to buy goods and services, and other taxpayers are using virtual currency as part of their overall investment and portfolio strategies.

With the growing popularity of virtual currency transactions and the need to ensure accurate tax reporting, the IRS has made the topic one of their compliance priorities. In recent years the 1040 includes a question on virtual currency on the top of page one, giving a clear indication that crypto asset reporting is top of mind for the IRS. Also, congress has recently passed legislation requiring changes in crypto asset reporting by brokerages for the 2024 filing season (2023 returns).

While the IRS is clear that virtual currency is treated as property for federal income tax purposes, other questions remain for more nuanced situations. As this area continues to evolve and more taxpayers are impacted, we are watching for more guidance and clarity on how the IRS expects virtual currency transactions to be treated.

Charitable Contributions

While the tax benefits of making charitable contributions and taking an itemized deduction for such contributions were tamped down as a result of the increase in the standard deduction in the TCJA, the [CARES Act](#) modified the charitable contribution rules for 2021 tax returns. Eligible individuals who do not itemize deductions can claim an above-the-line deduction of up to \$300, (\$600 for married filing joint returns) for qualified cash charitable contributions made during 2021.

As in prior years, you may reap a larger tax benefit by donating appreciated assets, such as stock, to a charity. Generally, the higher the appreciated value of an asset, the larger the potential value of the tax benefit. Donating appreciated assets not only entitles you to a charitable contribution deduction but also helps you avoid the capital gains tax that would otherwise be due if you sold your stock.

Finally, if you have an individual retirement account and are taking required minimum distributions, you are eligible to make charitable contributions directly from your IRA. This is more advantageous than taking distributions and making donations to the charity.

Child and Dependent Tax Credit and Advance Payments

For 2021, you may claim a credit for as much as a \$3,600 credit for each child under age 6 and \$3,000 for each child under the age of 17. The amount of the credit is reduced for taxpayers with modified adjusted income starting at \$75,000 single, \$112,500 for head of household and \$150,000 for married filing jointly.

In July 2021, the IRS started sending monthly advance child tax credit payments of up to \$300 per dependent child under the age of 6 and \$250 per dependent child under the age of 17. These payments are an advance on the credit that you normally receive and must be reconciled on your tax return. Unlike the economic impact payments, any overpayment of the advance child tax credit must be repaid with your 2021 tax return.

In January 2022, the IRS will send you Letter 6419 to provide the total amount of the advance payments that were sent to you. This letter must be provided to your preparer to make sure the correct amounts are reported on your tax return, otherwise there will be a delay in the processing of your tax return and payment of refunds.

There have been no changes to the \$500 credit for certain other dependents.

Education-Related Deductions and Credits

Certain education-related tax deductions, credits, and exclusions from income may apply for 2021. Tax-free distributions from a qualified tuition program, also referred to as a Section 529 plan, of up to \$10,000 are allowed for qualified primary and secondary education expenses. Qualified primary and secondary education expenses for this purpose include tuition expenses in connection with a designated beneficiary's enrollment or attendance at an elementary or secondary public, private, or religious school. It also includes expenses for fees, books, supplies, and equipment required for the participation in certain apprenticeship programs and qualified education loan repayments in limited amounts. A special rule also allows tax-free distributions to a sibling of a designated beneficiary.

In addition, if your modified adjusted gross income is below certain thresholds, the following are also available for 2021: the American Opportunity Tax Credit of up to \$2,500; an exclusion from income for education savings bond interest received; a deduction for student loan interest of up to \$2,500; a lifetime learning credit of up to \$2,000 for tuition and fees paid for the enrollment or attendance of yourself, your spouse, or your dependents for courses of instruction at an eligible educational institution.

Required Minimum Distributions – You Have Options

When it comes to required minimum distributions, you have options other than just spending the money. If you do not need your RMDs for everyday living expenses, you can make qualified charitable contributions, leave them to future generations or reinvest them for future needs.

Please discuss available options with your investment advisor. If you do not have an investment advisor, please let us know and we can refer you to an investment advisor with whom we have established relationships.

Tennessee Hall Tax Phased Out

Tennessee is now one of only nine states that do not tax individual income. The Hall Tax started being phased out in 2016, by 1% per year, and it is now gone.

Life Events

Life events can have a significant impact on your tax liability. For example, if you are eligible to use head of household or surviving spouse filing status for 2021 but will change to a filing tax status of single for 2022, your tax rate will go up. If you married or divorced during the year and changed your name, you need to notify the Social Security Administration (SSA). Similarly, the SSA should be notified if you have a dependent whose name has been changed. A mismatch between the name shown on the tax return and the SSA records can cause problems in the processing of tax returns and may even delay tax refunds. Let us know if you have been impacted by a life event, such as a birth or death in your family, the loss of a job or a change in jobs, or a retirement during the year. All of these can affect your tax situation.

2021 – 2022 Key Numbers

STANDARD DEDUCTION		
	2022	2021
Single	12,950	12,550
Married Filing Jointly	25,900	25,100
Head of Household	19,450	18,800
Married Filing Separately	12,950	12,550
Extra for Age or Legally Blind	1,300/1,650	1,300/1,650

QUALIFIED RETIREMENT PLAN CONTRIBUTION LIMITS		
SUBJECT TO COMPENSATION LIMITS		
	2022	2021
401(k), 403(b), 457(b)	20,500	19,500
50+ Catch-up Contribution	6,500	6,500
SIMPLE IRAS	14,000	13,500
50+ Catch-up Contribution	3,000	3,000
SEP	61,000	58,000

HEALTH SAVINGS ACCOUNT (HSA)		
	2022	2021
SELF-ONLY COVERAGE		
Minimum Deductible	1,400	1,400
Maximum Out of Pocket	7,050	7,000
Contribution Maximum	3,650	3,600
FAMILY COVERAGE		
Minimum Deductible	2,800	2,800
Maximum Out of Pocket	14,100	14,000
Contribution Maximum	7,200	7,200
Age 55+ Catch-up		
Contribution	1,000	1000

INDIVIDUAL RETIREMENT ACCOUNT (IRA)		
SUBJECT TO INCOME LIMITS		
	2022	2021
Under Age 50 at Year End	6,000	6,000
50 or Older at Year End	7,000	7,000

As always, we appreciate each of you and the trust you place in us!
We look forward to continuing our relationships in the New Year!

*This newsletter is designed to provide general information regarding the subject matter covered.
We advise you to speak with your tax advisor about how this general information may apply to your particular situation.*