

TaxUpdate

2021 MID-YEAR NEWSLETTER



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Tax Planning: More Important than Ever

With the recent passage of a massive \$1.9 trillion dollar piece of legislation, planning for your tax bill in 2021 is more important than ever. And when you add in how the pandemic is affecting you, you have a situation where a review of your tax situation becomes an essential task for the year. Here are some things to review and consider:

Refund or payment due means review. Did you owe last year? Was your refund high? If so, make necessary adjustments to withholdings now to lower your year-end tax payment and keep more of your money in your pocket.

Send in enough to cover your tax. Remember, you need to withhold enough to cover this year's tax burden or last year's tax to ensure there is not an underpayment penalty.*This is especially important if you receive or expect to receive any unemployment benefits.

Look for the drivers of your tax. Review last year's tax return. Look at your income and deductions. Focus on the larger amounts. These are the drivers of your tax obligation. By applying 2021's tax rates and rules to these amounts you can forecast your potential tax obligation.

Review changes to your situation. Did you add a dependent? Lose one? Any change in your marital status? Any age changes that may help you? These life events can cause havoc at tax time.

Review changes in the rules. Look at the deductions and credits taken on last year's tax return. Will you qualify for all of them again this year? Take special note of any law changes including new dependent care rules, higher child tax credits, taxability of unemployment, and new retirement account rules.

Year-end tax moves. Remember, you can usually make tax moves to reduce your tax burden. Some suggestions include:

- give cash and property to charitable organizations
- make quarterly estimated tax payments
- sell investments to take losses
- shift deductible expenses to optimize your tax benefit

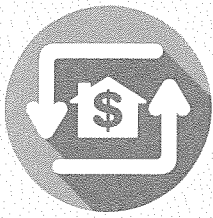
Most of us can't wait to store last year's tax return as soon as it is filed. Perhaps by pulling it back out and spending a moment or two, this year's tax filing experience can be a better one.

**Special rules apply if your income is \$100,000 or over.*

Adjust to Pandemic Rule Rollbacks

It's hard to believe a little over a year ago the COVID-19 pandemic hit everyone. As things slowly turn back to normal, it is time to be ready for the normalizing of the tax rules and adjusting to new ones. Here is how you can be prepared.

- ☐ **Required minimum distributions.** If you are age 72 or older, you must once again plan to take the minimum required distribution from your retirement account in 2021. The one-year waiver of this required distribution is now over.
- ☐ **Penalty-free distributions from retirement accounts.** While penalty-free distributions from retirement accounts are still available for those in presidentially-declared disaster areas, the distribution benefit for pandemic related reasons is expiring. Remember, if you had to make withdrawals you will still need to pay income tax on the distributions unless you repay the funds in a timely manner.
- ☐ **Unemployment taxation.** Federal unemployment benefits continue to be extended through various federal spending programs. Late breaking rules make \$10,200 of last year's unemployment benefits tax-free on most 2020 federal tax returns. But that doesn't mean you won't be taxed on these benefits in 2021. If there are not withholdings from these payments, you may be required to send in estimated tax payments.
- ☐ **Businesses need to stay alert.** While the original PPP loan program is now in forgiveness mode, there are new loans and active programs to help cover the cost of employees affected by the pandemic. The best course of action is staying aware of the ever-changing federal and state landscapes.



Defending Fair Market Value

Fair market value (FMV) is the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and

a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts.

— Source: IRS Publication 561

This is the standard the IRS uses to determine if an item sold or donated by you is valued correctly for income tax purposes. If the IRS decides your FMV opinion is wrong, you are not only subject to more taxes, but also penalties to boot.

Here are some tips to help defend your FMV in case of an audit.

Understand when it is used

FMV is used whenever an item that is bought, sold, or donated has tax consequences. The most common examples are:

- Valuing charitable donations of personal goods and property like automobiles
- Buying or selling your home or other real estate
- Buying or selling personal property
- Buying, selling or transferring business property
- Bartering for goods or services

Ideas to defend your FMV determination

To help defend your FMV determination, consider the following:

- ➔ **Properly document donations.** Ensure your donated items are in good or better condition. Properly document the items donated and keep copies of published valuations from charities. Don't forget to ask for a receipt (confirmation) of your donations.
- ➔ **Donate capital items like automobiles to the correct places.** You may use the FMV of a donated automobile, but only if the charity you donate the item to will use it themselves, or will provide it to someone who will use it. Otherwise, the FMV of the donated vehicle will be limited to the amount the charity receives when they re-sell it. So be careful if donating to places like Kars4Kids or your donation value could be limited!

➔ **Get an appraisal.** If you sell a small business, a collection, artwork, or a capital asset, consider obtaining an independent appraisal of the property prior to selling it. While still open to interpretation by the IRS, getting a third-party appraisal can be a solid basis for defending any differences between your valuation and that of the IRS.

➔ **Keep copies of similar items and transactions.** This is especially important if you barter goods and services. If you have a copy of an advertisement for a similar item to the one you sold, it can readily support your FMV claim.

➔ **Take photos.** The condition of an item is often a key determinate in establishing FMV. It is fair to assume an item has wear and tear when you sell or donate it. Visual documentation can be used to support your claimed amount.

➔ **Keep good records.** For major purchases, keep copies of invoices. Retain bills for any improvements. Any sale of property needs to include a dated bill of sale that clearly states transfer of ownership and the amount paid for the item.

With proper planning, establishing the fair market value of an item sold or donated can be done in a way that can be defended against a challenge from the IRS.

Navigating the New 2021 Child Tax Credit

The whirlwind of tax changes just keeps going. Now, if you have children 17 or under there is a new, higher child tax credit in place for 2021. Here is what you need to know:

- **The new credit amount.** The child tax credit goes from \$2,000 per qualifying child up to \$3,000 per child. The amount can even be \$3,600 per child if your child is under the age of six.
- **Age matters.** The old credit was for children under the age of 17. The new credit goes through age 17 and includes an increased credit for children under the age of 6.
- **Fully refundable.** You will get the child credit even if you do not owe tax. The old rules required \$2,500 in minimum earnings and only up to \$1,400 of the credit was refundable.
- **Phaseouts just got a lot more complicated.** As with the past child tax credit, you can only receive the credit if

your income is below a threshold amount. The \$200,000 unmarried; \$400,000 married income phaseouts from the old \$2,000 credit are still in place. To get the higher credit amount, your adjusted gross income phaseout begins at \$75,000 single; \$112,500 for head of household; and \$150,000 for married filers.

- **New periodic payments.** The new child tax credit also allows you to receive monthly payments for ½ of the credit from July through December (assuming the IRS can deliver a way to do it in time). There will be a new web site to opt out of this monthly payment process.

Unless noted, the other requirements to receive the child tax credit stay in place. So you must still pass rules for the relationship test and support tests to qualify. As always, should you have questions please feel free to call.