Issue 15 Volume 1
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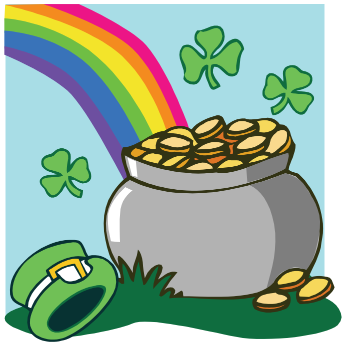

Sauppé Tax News

Brought to you by
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Special points of interest:

- Unemployment
- IRA/401k Changes
- Charitable Documentation

INSIDE THIS ISSUE:

Roller Coaster Year

2020 has been an eventful year for all. There have been several bills passed in Congress this year that may impact your tax returns. Chief among these is the CARES Act, but also included are the Paycheck Protection Program Flexibility Act and others. These laws all contain many items that required further clarification which is coming piecemeal from the IRS and Treasury Dept. In many cases, taxpayers are trying to interpret the rules without much clear guidance.

More bills are currently working there way thru Congress such as the Heroes Act. Whether they will pass or not is anyone's guess.

And we also have Executive Orders that have been issued which make things even more complicated.

Because you all have different tax situations, it is difficult to provide detail on all the changes. If you have heard something on the news that you believe will impact your taxes but are confused by it, feel free to send me an email asking for more information.

However, one area that could impact all of you is the new "above the line" charitable deduction. What this means is that even if you do not itemize (as many of you now don't with the new rules as a result of the Tax Cuts and Jobs Act passed in December 2017), you may be able to claim a charitable deduction on your tax return in addition to the standard deduction. There are limitations on what can be deducted (it must be a donation of cash so donating items does not count), and it is limited to $300 per tax return. It is currently unclear whether this will allow married couples filing separately to EACH claim $300 so we await further clarification from the IRS. However if you believe you may qualify for this new deduction, you MUST complete our charitable donation recap (found on page 2 of this newsletter). If you do not complete this form, we will NOT include any charitable donations on your tax return. All other tax rules for charitable donations remain the same as in previous years so donations of $250 or more must also have the required supporting documentation (see page 5).

Taxpayer Name________________________________

Charitable Donation Recap for 2020

Must be completed for ANY donations you wish to claim on your 2020 tax return.

Monetary donations

You may combine donations made to the same organization in this section. For example, if you gave three checks of $100 each to the Red Cross, you may simply list the total. In this case, since each donation was under $250, you do not need to provide any receipts from the charity and may enter NO in the last column. For method of payment, indicate check, bank debit, payroll deduction, or cash. If cash, you must include the receipt from the charity recognizing the donation. Please note that any purchase of raffle tickets from a charity does NOT represent a charitable donation. Also, if you receive something of value in return for your donation, your donation must be reduced by the fair market value of that item. The charity will normally provide you with this information.

Name of Charity	Method of Payment	Amount	Any single donation greater than $250? YES/NO
EXAMPLE: Red Cross	Checks	300.00	NO

Non-Monetary Donations

List each donation separately. In all cases, a receipt from the charity and a list of the items donated with the value assigned to each item **must** be included with your paperwork. For car donations, a 1098-C should also be included. If the **total** of all your non-monetary donations is greater than $500, you MUST complete the last three columns for **all** donations. A valuation guide can be found on our website at www.sauppetax.com. The value assigned to any item must be the **smaller** of fair market value or your basis (usually your cost). For example, if you found an item on the street and then donated it, your deduction for tax purposes would be zero because you had no basis.

Name of Charity	Date of Donation	Total Fair Market Value of Items Donated	How Acquired by Donor	Date Acquired by Donor	Donor's Basis
EXAMPLE Goodwill	12/15/20	$75	Purchased**	12/5/03**	$600**

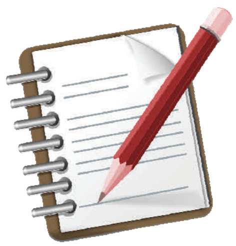
** Not needed if the total of **all** non-cash donations are less than $500.

Unemployment and Taxes

Many of you may have received unemployment benefits in 2020 as a result of Covid-19. If so, you should receive a 1099G which will report the total amount of these benefits and show any taxes withheld. Please be sure to include that document with your other tax paperwork.

These benefits ARE taxable to you and will be reported on your tax return. If you did not have any federal or state tax withheld, this could result in a balance due on your returns depending on your tax situation. For those subject to city income taxes, you will be glad to hear that unemployment benefits are not taxable by most cities.

Items to Note



- The minimum penalty assessed by the IRS if you file your return more than 60 days after the due date and have a balance due is now $435 (up from $215). So even if you can't pay your tax, you should file your return.
- We highly encourage electronic payment and refund on your taxes. If we have your bank information on file, and you do not instruct us otherwise by noting that when you send your tax documents, we <u>will</u> process your payment or refund electronically. If you prefer to get a paper check or mail in a payment to the IRS, it is your responsibility if the IRS mishandles the check. We recommend that any checks you mail to the IRS be sent via certified mail so that you can confirm receipt.
- Per the IRS, each US household that complies with the tax rules is effectively paying an average annual surtax of greater than $3,000 to subsidize those who are non-compliant.
- The US federal budget deficit hit a record of $3.1 trillion (yes, trillion) in 2020. A major cause of this amount is the $2.2 trillion spent so far on stimulus packages to fight the economic effects of Covid-19. The public debt is 136% of the gross domestic product.

Keeping your fees low

We try to keep our tax preparation fees as low as possible. However, we need to continue the policy of charging you if you do not provide the required information with your tax paperwork.

If you do not complete the annual questionnaire in its entirety and return it with your tax documents, there will be an extra fee of $25. This means the questionnaire must be signed (by both taxpayers in the case of a married couple), all questions must be completely answered, and all documents requested in the questionnaire must be included. If you have questions about what to send, please ask us before sending your documents.

Failure to complete the estimated tax portion of the annual questionnaire will incur another $25 charge per taxing agency. This includes any federal, state, or city estimated taxes you paid during 2020 or the first few months of 2021. So if you pay city estimated taxes to two cities but fail to complete that information on the questionnaire, there will be a $50 extra charge.

Because we need to have your current driver's license data on file to electronically file your return, there will be an additional $25 fee if your driver's license has expired and you do <u>not</u> send us a copy of the new license with your tax documents.

No matter what method you use to send us your tax documents (see page 7 for a list of the recommended methods), please be sure to send them in an efficient manner. For example, if you are sending them electronically, please be sure to send as few scans as possible and to send them all at the same time. If you send documents over multiple days or weeks, or scan each document separately, we have to spend extra time to log in, download, review, and enter those documents. That extra time will now be added to your bill. Be sure to include both pages of a form that has information on both sides as oftentimes the back page does contain vital information.

The later in the tax season your documents are received, the higher the overall tax preparation fee will be. We cannot put more hours into the time period available before the tax filing deadline.

We regret having to institute these additional fees, but you can easily avoid them by simply taking a few extra minutes when gathering and submitting your documents to ascertain that you have everything needed.

You may be familiar with the item shown to the left. This is a QR (short for Quick Response) code. The information contained in the code has detailed information about an item. Often QR codes are used to point directly to a website. The IRS is now including these codes on CP 14 and CP 14 IA notices sent to taxpayers. They are assessing this idea to determine the possibility of adding the technology to other IRS correspondence in the future.

Changes to IRA and 401k Rules

One of the changes made by the CARES Act was the suspension of required minimum distributions from most retirement accounts for 2020. Prior to this change, anyone who had reached the required distribution age HAD to take a distribution from their retirement account (a few exceptions apply but they only affect a small portion of taxpayers). The required age was 70 1/2 for those born July 1 1949 or earlier. Anyone born after 7/1/49 has a required distribution age of 72.

Because of the financial losses incurred in the market in the early part of 2020, Congress stated that no one was required to take their distribution in 2020 no matter what their age. You could still take the distribution if you wished, but were not required to do so.

Congress also allowed those who had already taken a **required** distribution to return it if they wished. Please note the highlight—only **required** distributions could be returned. If you were not required to take a distribution but did so in January 2020, for example, you cannot return that distribution unless you use the 60 day rule (explained below).

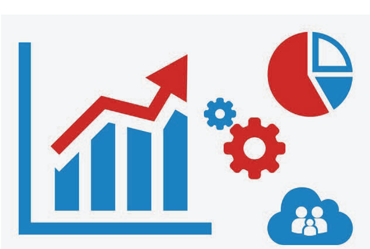
You have always had the option to return a distribution from a retirement account within 60 days of distribution. This applied whether the distribution was required or not, though if you returned it you still needed to take any RMD. So let's say you take a distribution from a retirement account on 10/15/20. You can return it by 12/13/20 and it won't count as income for the year.

Another change made by the CARES Act allows you to potentially avoid the 10% penalty for early withdrawal from your retirement account. Normally if you are under 59 1/2 when you take a distribution, the amount taken is subject to tax at your marginal tax rate AND a 10% penalty. There were a few exceptions that waived the 10% penalty such as using the funds to purchase a home for the first time. The CARES Act added a coronavirus-related distribution (CRD) exception to this penalty. This exception, which only applies to distributions taken in 2020, allows a taxpayer to withdraw up to $100,000 from a retirement account. But note that this exception only applies if the taxpayer, the taxpayer's spouse, or the taxpayer's dependent is diagnosed with coronavirus or suffers financially from being laid off, furloughed, or quarantined as a result of the coronavirus. It is likely that the plan sponsor will not ask you whether you meet this CRD exception and may code the 1099R to show you ARE subject to the penalty. It will be your responsibility to certify to this office that this exception DOES apply to you so that we can prepare an accurate tax return for you.

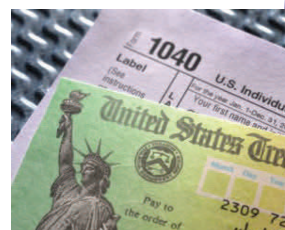
TCJA Revisited

The Tax Cuts and Jobs Act (TCJA) has now been in play for a few years. Most changes started with the 2018 returns. These changes have resulted in huge swings in tax statistics. Here are some of them.

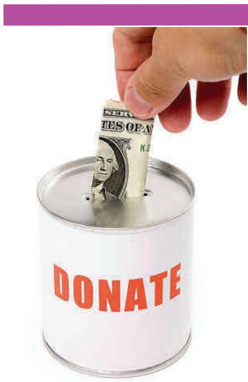
- The number of taxpayers that had to pay the Alternative Minimum Tax on their 2017 returns was 5.07 million. That number dropped to 244,007 taxpayers on the 2018 returns.
- In 2018, only 17.53 million returns itemized deductions compared to 46.9 million returns in 2017.
- There were over 18 million returns that benefited from the new Qualified Business Income Deduction which is the 20% pass-through deduction.
- The child and dependent care credit accounted for $27 billion in credits



Economic Impact Payments Did You Get Your Full Amount?



You have probably all heard about the Economic Impact Payments that were part of the CARES Act. This is the $1,200 per taxpayer ($500 for some dependents) that was sent out to most people in late April or early May. One common misconception about this payment is that it is taxable to you. This is FALSE. Whatever amount you received will not have to be included in your taxable income on your 2020 tax return. However, the amount you received DOES have to be reported on the 2020 1040 to determine if you are entitled to any additional funds., The amount you received was actually an **advance** against the credit that will be calculated on your 2020 tax return. In order for us to do this correctly, you MUST tell us the amount your family received in advance. You should have received Notice 1444 shortly after getting your payment. Please include this in your tax documents. If you do not provide this information, we will have to assume you received the full amount available based on your tax picture and will be unable to calculate any additional credit due to you. As of this writing, the IRS has stated that if you received too much advance, you will not have to pay back the excess.



Charity Begins with Paperwork

We once again are repeating the rules for charitable donations to be claimed on your tax return. This is even more important this year in light of the new "above the line" charitable deduction (see page 1). Whether you are only taking this new above the line deduction or will be claiming itemized deductions which include charitable donations, it is imperative for you to understand the rules for substantiating your donations.

The rules for substantiation of all charitable donations was NOT changed by the Tax Cuts and Job Act (TCJA). If you make a cash donation (i.e. putting a $5 bill in the Salvation Army bucket), you cannot use that donation on your taxes, *unless* the charity is willing to give you a receipt for the $5. If you make a donation via check or credit card, and the amount is under $250, your cancelled check or credit card statement is all the proof the IRS requires. Even if you make three checks of $200 to one charity, you do not need any additional documentation as the total of each payment was under that $250 threshold. However, if you write a check, or make a credit card payment, of $250 or more, you are required to have an acknowledgement letter from the charity to substantiate that donation. The letter must contain the verbiage that no goods or services were received in exchange for this donation.

Documentation is also required for non-monetary donations. If you give household goods to Goodwill, for example, you must obtain a receipt from Goodwill. You must also prepare a list of each item donated and show the fair market value for each item on the list. If you donate a car that has a value of $500 or more, you should receive a 1098C from the charity. This form will show the amount the charity received when it sold the vehicle. This is the maximum amount you may claim as a charitable donation. Any donations of $5,000 or more require an appraisal from a certified appraiser which must be included with the tax return.

If you are 70 1/2 or older, you may be able to avoid these documentation requirements, by contributing directly from your IRA to a charity. You will need to confirm that your plan sponsor can handle this type of transaction.

PPP Loans & Other Small Business Issues

You probably have heard the term PPP loan and may even have applied for one if you run a small business. The acronym stands for Paycheck Protection Program and was a loan certain small businesses could request from the Small Business Administration (SBA). As of this writing, the PPP loan program has ended and no new loans can be obtained.

If certain requirements were met, the loan proceeds could be forgiven by the local bank who processed your loan as the US government would repay the loan for you. The loan proceeds (like most loans) are not considered taxable income. The major caveat here is that the expenses paid with the forgiven PPP loans could not be claimed on your tax return according to current IRS guidance though that may change. So let's say your local candy store took out a PPP loan and used it to pay their employees (either during the time the store had to be closed or even after the store re-opened for business). The store owner would only report income for the sales generated, but the money spent on payroll that had been covered by the PPP loan money would not be a deductible expense. If your business received either a PPP loan or an EIDL loan during 2020, be sure to provide this office with all details.

Another benefit given to both businesses and self-employed individuals as part of the CARES act is the ability to **delay** the payment of some of the 2020 Social Security or SECA tax. If employers meet the requirements, they can delay paying the employer portion of social security taxes imposed on the wages they paid until 2021 and 2022.

SECA tax is similar to the social security tax an employee pays on their wages. The self-employed individual pays this tax via their 1040 and is based on the earnings from the self-employment income. Part of the tax due on the earnings from 3/27/20 until 12/31/20 can be delayed until 12/31/21 (1/2) and 12/31/22 (the other half). The best way to explain this is probably thru an example. Mary Washington makes and sells home-made ice cream. For 2020, her net profit from her business is $12,000. She can either figure her income for each period (1/1/20 to 3/26/20 and 3/27/20 to 12/31/20) or she can use an average. She owes total SECA tax of $1,696. This is *in addition to* the income tax due on this money. The portion she can delay is that amount prorated for the time period ($1,314) then cut in half ($657). She will need to pay $328.50 by 12/31/21 and the other $328.50 by 12/31/22. We have not been given any indication on how this will be done.

As you can see, this can get very complicated. Rest assured we will continue to monitor guidance issued by the Treasury Dept and the IRS to be sure we are getting you the maximum tax savings possible. We will assume you wish to delay payment whenever possible unless you tell us otherwise.

OUR PLEDGE

- We will provide you with top notch tax preparation service.
- We will prepare your federal, primary state, and primary city (if applicable) returns based on the information you provide.
- We will file your federal and state returns electronically as required. If you prefer to mail a paper return, you must notify us of your intent when you submit your tax paperwork, and you will be required to include a waiver request with your mailed return (which we will provide).
- We will gladly answer questions for you throughout the year regarding tax situations you may encounter. Please keep in mind that tax season is a very busy time for us. If you have questions, it may be better to ask them outside of tax season so we can give a full and complete answer.
- If you request, we will represent you before the IRS when questions arise about your return. However, you must send us copies of any notices you receive from the IRS, the state, or city regarding your returns. In a timely manner. We do not automatically receive copies of these notices and cannot assist you with them, without first reviewing the information in the notice.
- We will explore every available tax break for which you may be eligible and keep up with all the new tax laws to see how they may impact you.

However, keep in mind that there are some limitations to the services we can offer. We CANNOT do the following:

1. File any extension request form without the required authorization from you.
2. Maintain your tax paperwork indefinitely in our files (we only keep 5 years of records).
3. Track cost basis on your portfolio investments. However, for an additional fee we will try to calculate cost basis if you provide us all pertinent data in a timely fashion.
4. Prepare returns other than those mentioned above unless you have requested this in writing.
5. Give you financial or legal advice except indirectly as it relates to your tax situation.
6. Place a value on non-monetary items donated by you to a charity.
7. Discuss your tax information with anyone without your express **written** permission. The IRS requires a very specific disclosure notice be completed anytime a disclosure is requested. A verbal request or written note from you is NOT sufficient. This includes a request to fax or e-mail information to a third party.

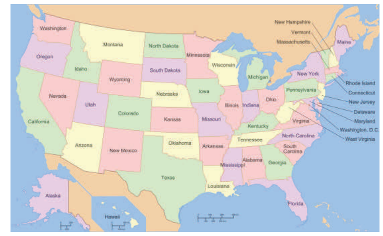
Executor Duties

So a family member or friend has named you executor of his or her will. Hopefully you have been notified of this before the person dies as it would be helpful to you to collect certain information ahead of time.

1. You should ask for a copy of the person's will, as well as find out where the original will is kept. If this is in a safe deposit box, you will need authorization to access the box which may take a long time for the bank to process without some advance planning.
2. You should ask the person to prepare a list of current assets and liabilities. This would include all bank accounts, credit cards, loans, real property, and personal property. The amounts of each are not as important as the other details such as account numbers, locations, etc. The amounts will change from day to day but you will need contact information to collect all funds due to the deceased, and pay all outstanding bills of the deceased. The person may not wish to provide you with the details while they are alive, but they definitely should let you know where this information is stored. You should also stress that this person should keep this information updated.
3. In this digital age, you should know where the deceased kept all their user names and passwords for all online accounts. You will need to cancel online subscriptions and services, as well as access online financial accounts. Many people no longer receive paper copies of statements, so online may be the only way to obtain current values. Again, the person may not want to provide you with this while they are alive, but should let you know where they keep their list. If they use a password manager program, you will need the master password for that account.
4. You may also need user names and passwords to access personal, digital items such as photos and videos that may be of sentimental value to the beneficiaries. Be sure to dispose of all digital data that won't be kept in a safe manner. Do not just throw out old laptops, tablets, etc.
5. You should know where the person stores his tax documents including the prior year returns. As executor one of your responsibilities is to file the final income tax returns of the deceased as well as verify that all previous returns have been filed. You can be personally liable for the back taxes if this is not done properly.

This is not a full and complete list but will give you an idea of the work facing you. Call the office if you wish to discuss.

Work Location Changes Because of Covid



Because of Covid-19 many of you have relocated your office. A few tax issues may come into play because of this work location change.

Now that you may be working from home on a permanent or semi-permanent basis, you may be wondering if you qualify for an Office in the Home (OIH) deduction.

If you receive a W2 from your employer, the answer is no. The changes made by the Tax Cuts and Job Act (TCJA) eliminated almost all miscellaneous itemized deductions. This included the OIH deduction which had been claimed on Form 8829 and 2106. Bottom line—a change in your work location because of Covid does not allow an employee to claim OIH.

If you are self-employed, you may be entitled to this deduction. This can also be true if you have a W2 job but do some work on your own when not working your W2 job. This deduction is claimed on Form 8829 and Schedule C. There are a number of requirements that must be met before this deduction can be taken, however. First and foremost, the area in your home that is used for your self-employed business but be used **regularly** and **exclusively** for this business. You cannot take a spare bedroom in your home, put a desk in there that you use occasionally but also use the room for guests when they visit, and say it is used regularly and exclusively for business. You can use a portion of a room IF it meets this requirement. For example, if you have a 10X10 room that is used one half for your business and one half for personal, you can take an OIH for half of the room. But you must be able to document that the business portion is not used personally. Secondly, the OIH must be your principal place of business. For example, if you have an office in an office building downtown that you use during the day, and also happen to use your home office on some nights and weekends to do some work, you probably would not qualify as your downtown office would be your principal place of business.

Let us now assume that you do meet these two requirements. How do you go about claiming this deduction? There are two methods allowed by the IRS—simplified and regular. For the simplified method, you simply need to determine the square footage of your office and the total square footage of your home. The office square footage is simply multiplied by $5 to arrive at your deduction. The maximum deduction is $1,500 so if your office is bigger than 300 square feet, this may not be the best method for you. An advantage to the simplified method is that you do not need to worry about depreciation each year, recapture it when you sell your home, or track all your home expenses.

With the regular method, in addition to the square footage required above, you would need to provide the total utilities, insurance, mortgage interest and real estate taxes (or rent paid), and any other expenses of the home. If you own your home, you must also provide the cost of the home, the cost of any major capital improvements made since you purchased the home, and the fair market value of the home on the date you first started using it for business (which may or may not be similar to the cost). This is a lot of information to gather and may not be worth the effort for the potential deduction on your taxes, but we cannot answer that question without having all the amounts. Keep in mind also that the OIH deduction cannot create a loss. So if you have a business that only generates a small profit (let's say $500 each year) and your OIH deduction is $1,200, you can only use $500 in that year. The excess deduction of $700 can be carried forward.

Another issue that may arise because of your potential new work location has to do with state and/or city taxes. If you had been reporting to your office in one state, but lived in another state, you may have had to pay taxes to both states but probably were given a credit on your resident state tax return for the taxes paid to your work state. But if you are now working from home, does that mean you only have to pay tax to your resident state (which is also now your work state)? This is an issue that is still being debated by state legislatures. Some states have already agreed to "ignore" the employee's home location and assume that all work is still being done in the state it had been done before Covid. If you believe you may have to deal with this issue of crossing state lines for work because of Covid, please contact this office.

In Ohio, H.B. 197 was passed on 3/27/20 which said employees reporting to a temporary work location (think their home) during the emergency period, were to be considered still working at their otherwise principal place of work (i.e. the office location they had been going to before the pandemic began).

Sending Your Paperwork

Our mailing address is

P O Box 245 Trempealeau, WI 54661-0245

Our phone (voice or fax) is 608-534-2122. The email address is admin@sauppetax.com

Please send your tax documents by one of the following methods:

1. Use the US Postal Service—we recommend using Priority Mail so that you can track the package and confirm it was delivered.
2. Use UPS SurePost or FedEx Smart Post– both of these services start at UPS or FedEx but use the US postal service to complete the delivery process. Again you may want to look into tracking options. You must use one of these services as regular UPS and FedEx deliveries cannot deliver to a post office box.
3. Use our new encrypted storage service (Verfyle). If you used the service last year, you should still have access and can simply use it again. If you wish to use this service for the first time, simply send us an email and we will set you up on this end. You will then receive an email which will direct you to a Verifyle account. You will get a randomly generated password (or you can change it to one of your choosing). Once in, you can upload any files you wish and we will get an email notifying us that the files are waiting. This service is through the National Society of Accountants. Every message, thread, and document has its own encryption key for maximum security unlike many other cloud-based storage services which use a master key to encrypt information in bulk.
4. Send scans of all your documents via Dropbox or Google drive. If using this method, you must be sure you send all pages of every document, send all the documents at one time, and be sure all the pages are legible and complete before you send them. You must include our annual questionnaire. Be sure to send us an email letting us know you are sending your documents this way. For security reasons, we ***never*** click on a link in an email that is from an unknown or corporate sender so don't use an email inside the cloud storage to contact us. We won't open it!

We do NOT recommend sending your documents as an attachment to an email as this is unsecured and your attachments often contain sensitive personal data. It is too easy for this information to be waylaid on its way from your computer to ours.

As always, we will send your completed returns back to you for your review and signing of the 8879. We cannot electronically file your return until we have the signed 8879 in our possession.

If you wish an "in person" meeting, we can do a Skype call. You simply need to contact us to arrange a time for this call.

If you would like a checklist of the documents you submitted to our office for last year's taxes, please let us know and we will provide one.

Tax Tidbits

2020 Mileage Rate—The 2020 rate for deducting business miles is 57.5 cents per mile. The medical rate is 17.0 cents and the charitable rate is 14 cents for 2020. If you accurately complete the mileage section of our annual questionnaire, we will compute this deduction for you. The charitable rate for 2021 will remain at 14 cents per mile. The business and medical rates for 2021 were not yet available as of the date this newsletter was printed. Check our website at www.sauppetax.com for the latest info.

Useful Apps or websites

Snug Safety—For those who live alone. This app checks on you at a time of day you select

ICE Medical Standard—like a medical alert bracelet on your Smartphone lock-screen.

First Aid by American Red Cross– contains valuable info on what to do in any common first aid emergency

Dark Sky Weather—provides hyper local weather information for the next hour.

WikiDiff.com - ever wondered what the difference is between two words that seem similar (like sermon and homily for example). This site will tell you.

Kanopy– free movie streaming service offered by many libraries. No ads during playback.

CheckYourFact.com—this site and the next four listed will all allow you to verify "facts" presented

ScienceFeedback.co

Snopes.com

Pointer.org/CoronavirusFactsAlliance

FactCheck.org