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Happy New Year!

We made it to 2022! This has been another extraordinary year, and we are optimistic as we enter the new year. Tax Season is now upon us, and again we are looking at a year of tax law changes and a pandemic that has impacted both our personal lives and our businesses.

As we go in to this tax filing season, together we face the ever-changing tax landscape that includes legislation to help cope with the economic impact COVID-19 has had on the nation. The new legislation has provided new tax planning opportunities and tax benefits for many of our clients. We will continue to diligently apply all of the tax law changes to your greatest benefit. We look forward to working with you to make this a great year!

Gather Your Tax Paperwork and Receipts

As you gather your tax information (i.e. W-2's, 1099's, mortgage statements, etc.) please use the 2021 Client Income Tax Checklist attached here for your convenience.

Set Up a Tax Appointment, CALL (480) 783-8870

Call us to schedule your appointment, the earlier the better! This year, we will continue to offer in person meetings (if preferred), but in order to protect the health and safety of our clients and staff, we encourage scheduling a Zoom meeting or conference call. If you do not need to meet with us no worries, simply submit your documents to our office by mail, dropping off, or uploading to our ShareFile account, or email Gracie the information (gracie.valencia@capitalacctpc.com). Again, the earlier the better!

Tax Deadlines

S Corporations & Partnerships (Forms 1120S/1065) – Tuesday, March 15th

Individual & Corporations (Forms 1040/140 & 1120) – Monday, April 18th

Our clients are truly the best! We thank you for your continuous business and referrals. Please feel free to call us with any questions you may have. We look forward to seeing you in 2022. As always we have your back.

Sincerely,

Capital Accounting, PC

2021



TAX HIGHLIGHTS & ANALYSIS

There were several stimulus packages and programs made available for struggling businesses in 2021. Many of the programs have expired after providing significant assistance to businesses and individual tax payers. Currently, the Build Back Better bill is being negotiated in Congress. The bill has proposed additional significant items that could impact taxpayers and families. However, there have been several iterations of the bill and it is unknown how many of the items will be included if the bill does pass Congress.

The following is a summary of the current 2021 highlights:

INDIVIDUALS

Individual Rates

Individual rates remained at 10, 12, 22, 24, 32, 35 and 37% through 2021. The amount of income subject to the top tax rate of 37% is \$628,301 (married filing jointly), \$523,601 (single individuals).

Child Tax and Dependent Credit

The enhanced child tax credit has been increased to \$3,000 for children 6 to 17 and \$3,600 for those under the age of 6 in 2021 for those receiving the full credit. Now, the credit phases out, based on income. For those who have children 17 or older or those who care for elderly relatives, a non-refundable credit of \$500 per qualifying person may be available.

Many taxpayers received monthly Advance Child Tax Credits in 2021. These payments will reduce the amount of credit allowable on the 2021 tax return. The IRS will be sending out Letter 6419 to families that received the advance credit which will state how much of the advanced credit was received. Please provide a copy of this letter with your tax information. If the credit amount on the tax return does not match the amount from the IRS letter, processing the tax return can be delayed and refund amounts adjusted by the IRS.

Itemized Deductions

Itemized deductions including mortgage interest, charitable contributions, and medical expenses, remain deductible, but have a couple of changes to the limits for each. Charitable contributions are deductible up to 60% of income. Medical expenses now have a threshold of 7.5% of AGI. The deduction for state and local taxes continues to be limited to \$10,000.

Stimulus Checks

There were a total of three stimulus payments that eligible taxpayers received in 2020 and 2021. If the first two stimulus payments were not received or taxpayers were not eligible to receive them based on 2019

income, they received a refundable credit on their 2020 tax return. For 2021, eligible taxpayers will be due a credit for the third stimulus payment if it was not received or if they were ineligible in the prior tax year.

Solar Credit

Consumers who install qualified energy efficiency improvements (including solar water heating & solar electric systems) can receive a 22% tax credit of total cost in 2021 and 10% for year 2022.

Charitable Contributions

Charitable contributions continue to be deductible but proper documentation is necessary. Proper documentation can be a cancelled check or a credit card receipt, and for any donation more than \$250, a written acknowledgement from the charity is required. Taxpayers are able to take a deduction of up to \$300 for contributions made to qualifying charities. This deduction applies for those taking the Standard Deduction, not for those taking an Itemized Deduction.

Additional 0.9% Medicare Tax

A 0.9% tax is imposed on wages in excess of \$200,000 for single taxpayers and \$250,000 of the combined wages of married taxpayers.

Net Investment Income Tax 3.8%

Applies to long term and short-term capital gains, dividends, rental income or income from a business in which the taxpayer is a passive participant. Income thresholds apply – (\$250,000 threshold for married filing joint).

Capital Gain and Dividend Rates

The general structure of the capital gains tax system isn't changing. However, for married filing jointly the capital gains rate is 0% up to \$80,000 of taxable income and 15% for incomes of \$80,800 - \$501,600, and 20% for incomes above the highest threshold.

Standard Deduction and Personal Exemption

The standard deduction for 2021 is \$12,550 for single filers and \$25,100 for married filers.

Electric Vehicle Credit

Credits are still available for purchasing electric vehicles. The credits phaseout as the manufacturer sells a specific number of electric vehicles. Make sure to check if your vehicle is eligible for the credit.

BUSINESS

PPP Loans and ERC

Many businesses received PPP loans and have had those loans forgiven. PPP funds received are not taxable and deductions are allowed for the associated expenses.

Employer Retention Credits (ERC) are still available for 2020 and 2021! If your business experienced a 20% decline in gross income in any quarter of 2021 compared to the same quarter of 2019, then please contact us to discuss eligibility for this credit. Please keep in mind that unlike the PPP loans, expenses paid for with ERC funds are not deductible. Although the IRS has not provided specific guidance on the treatment of 2020 ERC funds, interpretations indicate that 2020 business returns are to be amended to remove the deductions for expenses paid for by ERC funds. **If you received ERC funds, please provide a copy of the check(s) you received.**

Research & Development Credit

The Research and Development Credit is available for Qualified Small Businesses. The credit is available for up to 20% of Qualified Research Expenses for which the tax year exceeds a base amount. Qualified Small Businesses can choose to make the Alternative Simplified Research Credit election. This election may be eligible to claim a federal tax credit for costs related to their research and development activities, up to \$250,000 per fiscal year.

Section 179 Expense – Permanently Extended

The increased expensing allowance for business assets, computer software, and qualified real property (i.e., leasehold improvement, restaurant, and retail improvement property) was permanently extended to allow property with a cost of up to \$1,050,000 to be expensed currently (with a limit of \$2,620,000 in total property placed in service before the Section 179 limit would be reduced).

Bonus Depreciation

Similar to section 179 bonus depreciation is accelerated depreciation, however it allows for up to 100% expensing for most business assets with less than a 20-year life (machinery, equipment, furniture).

Business Meal Deductions

Only for 2021, the CARES Act allows for 100% business deduction for meals. Moving forward to 2022, the deduction goes back to 50% of total costs.

AZ State Credit for S-Corporations

Dollar for dollar for contributions to school tuition organizations (STO's). Minimum \$5,000 – No maximum limit.

Reporting of 1099's (Independent Contractors)

Forms 1099-MISC or 1099-NEC must be filed for payments of \$600 or more to individuals or partnerships. You will need to meet the January 31st filing deadline. Applicable to both recipient and agency copies, whether filing by paper or electronically.

Net Operating Loss Deduction

The 2017 Tax Act limits the amount of the NOL that a taxpayer can use to 80% of taxable income. Plus, the law also repeals the provision allowing for a 2-year carryback but does allow for indefinite period to carryforward the NOL.

RETIREMENT ACCOUNTS

401k Accounts

401(k) contributions remain at \$19,500 in 2021, and an additional catch up of \$6,500 if you are age 50 or older. For 2022 the deduction will increase to \$20,500, plus the catchup.

Required Minimum Distributions (RMD)

The law raises to 72 from 70½ the age at which individuals must begin taking RMDs from their retirement accounts. Important: The new law only applies to people who turn 70½ after December 31, 2019. If a person turned 70½ in 2019, the law does not apply—that person must take an RMD in 2019, 2020 and beyond.

Traditional IRA

The IRA contributions limits for 2021 is capped at \$6,000, with a \$1,000 catch up contribution. Your ability to deduct traditional IRA contributions from your taxable income is income limited, with allowed amounts phased out as your income rises. Contributions to a Traditional IRA can be made until April 15, 2022 and allocated to 2021.

IRS Office

Contacting the IRS for guidance continues to be difficult. On the bright side, your chances of facing an IRS audit are greatly reduced. However, the IRS continues to send out computer-generated notices, usually from document-matching processes. Since IRS notices generated in this way are sometimes incorrect, you should contact us as soon as you receive correspondence and we will take care of it.

Remember, never ignore an IRS notice, it won't go away.



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Tax Year 2021 Key Income Tax Figures

Individual Income Tax Rates	10%, 12%, 22%, 24%, 32%, 35%, 37%	
Additional Medicare Tax Rate	0.90%	
Net Investment Income Tax Rate	3.80%	
Standard Deductions	2021	2020
Single & Married Filing Separate	\$12,550	\$12,400
Married Filing Joint & Qualifying Widower	\$25,100	\$24,800
Head of Household	\$18,800	\$18,650
FICA Taxable Wages (Social Security)	2021	2020
	\$142,800	\$137,700
Child Tax Credit	\$2,000	\$2,000
Standard Mileage Rate	2021	2020
Business	56¢	57.5¢
Medical and Moving	16¢	17¢
Charitable	14¢	14¢
Section 179	2021	2020
Maximum Amount 179	\$1,050,000	\$1,040,000
SUV Limitation	\$26,200	\$25,900
Retirement Plans	2021	2020
IRA - Contribution Limit/Catch up if Age 50	6,000/1,000	6,000/1,000
SIMPLE IRA - Contribution Limit/Catch up if Age 50	13,500/3,000	13,500/3,000
401(k), 403(b), & 457 - Contribution Limit/Catch Up Age 50	19,500/6,500	19,500/6,500
Defined Contribution - Contribution Limit	\$58,000	\$57,000
Health Savings Accounts (HSA)	2021	2020
Individual - Contribution Limit	\$3,600	\$3,550
Family - Contribution Limit	\$7,200	\$7,100
Age 55 Catch Up	\$1,000	\$1,000