

GRANITE POINT TAX GROUP, LLC



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Annual Newsletter, Vol. 11

Some year, eh?! And in case you missed it, we made some pretty big changes here at Granite Point as well. Garth officially retired at the end of 2020. Matt and Rachel closed the Portland office and moved up to Olympia, WA to set up a home office – more on that in a bit. As far as taxes go, we had the extended deadline for 2019 returns followed by EIDL and PPP loans for businesses, stimulus payments for individuals, federal unemployment benefits, and in the final few days of the year a huge package of legislation that we are still working to unravel. Throw in a second (and maybe a third??) round of stimulus checks and it's bound to be a bumpy tax season. Again.

Granite Point Rebirth

With the announcement of Garth's retirement at the end of 2020, Matt and Rachel decided to pivot to a work-from-home set-up for what is hopefully their last big career shift. Since the actual office still needs to be built, though, and with Covid19 still wreaking havoc, all tax interviews this year will be conducted by phone or video conference. Please note our new mailing address; phone, fax, and e-mail all remain the same.

Covid19 and Other Federal Changes

As most of you know, the IRS extended the 2019 filing deadline from the usual April 15 to July 15 last year. We haven't heard whether they anticipate doing so again this year; by now we have all had time to adjust to this strange new world, but filing season isn't scheduled to begin until February 12 this year (one of the latest starts in history) which is an awfully tight window. We'll see. Many changes have been made to the tax rules, some of them right at the tail end of

the year. Most of these changes apply to business entities, but a few apply to individuals. For starters, let's take a look at the Stimulus Payments. These payments are **not** taxable. In fact, they are actually just an advance payment of a new 2020 tax credit; there will be a form or worksheet on this year's tax return to reconcile payments received with the amount of credit you actually qualify for. Any shortfall in payments will become a tax credit. Any overpayment is yours to keep, the only exception being payments sent to taxpayers who died before the payment was sent - those should be returned to the IRS. Children born or adopted in 2020 also qualify for this credit. If Congress ultimately approves a third round of payments, we have to wonder whether those payments would apply to the 2020 tax return as well (delaying filing season even further) or toward a new 2021 credit. **We need to know** the amount of each stimulus payment you received in order to reconcile the credit on your 2020 tax return.

If you expect to receive a second stimulus payment but have not received the money yet, you may check the status on the IRS website. Look for the "Get My Economic Impact Payment" button. In most cases it will tell you the status of your payment. If it says it is unable to determine your eligibility, then you are either not eligible or there was an issue with your bank account and they will be sending your payment to you by check or debit card. That could take several weeks.

In other news, the Required Minimum Distribution rules for IRA accounts were suspended for 2020. No word yet on whether that will be the case for 2021. Also, IRA distributions of up to \$100,000 are exempt from the early distribution penalty as long as the taxpayer was financially impacted by the pandemic. Further, the income tax due on those distributions can be spread over three years. The rule disallowing contributions to IRA accounts by those aged 70 ½ or older has been repealed, although income limitations do still apply.

Unemployment benefits, including the \$600/week federal benefits, remain fully taxable as of this writing. A number of expiring tax provisions have been extended, such as the mortgage insurance deduction, energy credits, and the exclusion of cancellation of debt income on the sale of a personal residence. The tuition and fees deduction has been scrapped in favor of an expanded Lifetime Learning Credit.

EIDL, PPP, Employee Retention Credit

Most businesses qualified for some form of Covid-related financial assistance. First was the Emergency Injury Disaster Assistance Loan (EIDL). Initially capped at \$2 million, now capped at \$150,000, the EIDL program offers low-interest loans to small businesses, with a small portion of that eligible to be converted to a grant. The program is administered through the Small Business Administration in conjunction with most banks. The other program administered by SBA is the Paycheck Protection Program (PPP). Like the EIDL program, this is a low-interest loan to businesses but in this case is designed to provide incentive for those businesses to keep their employees on their payroll rosters. Funds used for certain approved expenses (most notably payroll) are eligible to be partially or entirely forgiven. For most of the year, the IRS' position was that any expenses paid with forgiven loan proceeds would not be deductible, but the tax package passed at year-end changed that. Forgiven PPP loans will not be taxable, expenses paid with those funds are fully deductible (a very rare perfectly legal double-dip!), and the forgiven loan amount does not reduce tax attributes such as depreciable asset basis, Net Operating Loss amounts, or owner basis.

The Employee Retention Credit was also designed to keep workers on payroll. Firms that have been financially impacted by the pandemic but continue paying workers can qualify for a credit of up to \$5,000 (rising to \$7k for 2021) per worker per quarter. Payroll expenses covered by PPP funds do not qualify for the ERTC. The credit is claimed on the company's payroll reports, not their income tax form – this results in a much faster benefit to the company.

Other Federal Changes

Business meals are 100% deductible for 2021 and 2022 instead of the old 50% limit. Entertainment expenses remain non-deductible, however. Both the 2020 Earned Income Credit and the refundable portion of the Child Tax Credit may be calculated based on 2019 or 2020 earnings, whichever works best. Flexible Spending Accounts may, if the employer opts to, carry over unused amounts from 2020 or 2021.

Taxpayers who claim the standard deduction can now claim up to \$300 (\$600 in 2021 if married) for cash contributions to 501(c)3 charities. Receipts are required and donations to private foundations and donor advised funds do not qualify.

Teachers may include Personal Protective Equipment in their \$250 educator expense deduction.

The standard deduction for 2020 is \$12,550 for singles and \$25,100 for married couples. Those 65 or older get an additional \$1,350 each. Blind people receive the same.

The gift tax exemption remains \$15,000 per recipient per year. The estate tax exemption climbs to \$11,700,000 per person.

Digital Currency

The IRS continues their hunt for unreported sales of virtual currencies such as Bitcoin and others. A question asking whether taxpayers have owned or sold any virtual currency has been moved from Schedule 1 to the first page of the 1040 itself. As a reminder, all income is taxable unless specifically excluded by statute and tax returns are signed under penalty of perjury to be true, correct, and complete to the best of your knowledge. This isn't one to mess around with; if you've been trading in virtual currency, please let us know! The IRS is gaining access to transaction record databases as we speak. If you receive IRS Letter 6174 or 6174-A ("We have information that you have or had one or more accounts containing virtual currency...") do not ignore it!

State and Local

Starting with 2020 tax returns, contributions to the Oregon 529 college savings plan and/or the ABLE plan qualify for a tax credit instead of an income subtraction. Income limitations apply. Funds distributed to pay for K-12 expenses are tax-free at the federal level, but not at the state level.

Multnomah County has a new personal income tax on upper-income. Starting January 1 of 2021, residents (and non-residents earning money within the county) will owe 1.5% on earnings over \$125,000 (\$200k for joint filers) and 3% on earnings over \$250,000 (\$400k joint). The tax will be withheld from most employee's paychecks, others will need to report and pay at year-end. The tax is scheduled to rise to 2.3% and 3.8% in five years. Revenue raised will be used to fund preschool programs.

Other News

Due to years of budget cuts and the Covid19 pandemic, the IRS remains *far* behind in processing taxpayer correspondence, payments, paper-filed tax returns, etc. If you receive a bill from them for something you know you already paid, you can safely ignore the first notice. If you receive a second notice, however, you will probably need to call them to request a hold on collection activities. Prepare to be on hold for two to four hours or more.

Taxpayers may now receive IRS correspondence in a language other than English. See instructions for Schedule LEP for more information and language options.

Cell Phone Photos and Data Security

We have adopted a new secure e-mail system. If you would like to send sensitive documents to us by e-mail, please go to the Secure Access page of our website (link located at the bottom of every page as well as in the main menu) and click the Encyro link for either Matt or Rachel. This will ensure documents are fully encrypted before being sent along the wire. Unencrypted e-mails can be easily intercepted and read by hackers. We still pay for our SecureDrawer service as well if you'd like to store documents there.

Please observe the following if you will be submitting cell phone photos of tax documents to us:

- Ensure the document is flattened – photos of partially folded papers are very difficult to read!
- Align the camera properly – Photo should be straight down, not at an angle.
- Ensure readability – Please LOOK at your photo to ensure it is legible before sending it to us!
- Include the entire document – Be sure the photo captures the entire page. Also be sure to check for relevant information on the *back* of each page.
- If this seems like too much work, please just mail us the originals – it's what we'd prefer anyway. Don't worry, we'll send them back to you when we're done with them.

The IRS is now allowing all taxpayers to opt in to their Identity Protection PIN program. This allows taxpayers to obtain a personal ID# for their tax return that must be included when the return is filed in order to combat fraudulent filings in their name. A rigorous identity verification process is required to obtain the PIN and a new PIN is required each year. Spouses and dependents are also eligible for the program. A PIN may be obtained at www.irs.gov/IPPIN. If you get one be sure to pass it along to us or your return will be rejected when we e-file.

Thank You

As with every year, we'd like to close with a heartfelt thank you. We know change is uncomfortable and in a year that seems to be nothing *but* change we feel especially blessed for your continued trust and loyalty. Garth sends each of you well wishes and Matt and Rachel look forward to working with as many of you as possible for years to come.

Please note that although we make every effort to confirm the information contained in this letter is accurate, we cannot guarantee it.