

GRANITE POINT TAX GROUP, LLC



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Annual Newsletter, Vol. 12

We expected last tax season to be a little bumpy and that's exactly what we got. From deadline changes, to Economic Impact Payment issues, to the latest retroactive change in tax law we've ever seen (March?? Really!), we were really pressed to keep up with it all. And so far this year isn't looking much smoother. One more round of EIPs to deal with, Advance Child Tax Credits, the Build Back Better bill (maybe?), and who knows if the Omicron variant of Covid19 will result in more deadline shifts. At least we won't be bored!

Covid-Related Provisions

The American Rescue Plan Act and the Consolidated Appropriations Act (both of 2021) provided substantial tax relief to many households. Some provisions are temporary, others are permanent until changed. Here are some of the more significant changes:

EIP-3 (Stimulus) Payments

The third Economic Impact Payment went out to most qualifying taxpayers around mid-May of last year. As with the first two payments, this was a pre-payment of a new one-time tax credit. When we prepare your 2021 tax returns, we must reconcile the amount of credit you qualify for with the amount you already received – the IRS says they are sending a letter to all EIP-3 recipients stating the amount paid; please include this letter when you send us your tax documents. Any shortfall can be claimed as a credit, while any overpayment is yours to keep; that is, it does not have to be paid back via a “negative” credit.

Child Tax Credit

The Child Tax Credit was significantly boosted for 2021. It jumped from a maximum of \$2,000 per qualifying child to a maximum of \$3,600 for children under six years of age, \$3,000 for ages six through seventeen. It was also temporarily made fully refundable; even if other credits and deductions eliminate your tax liability, you can still claim the Child Tax Credit and receive a refund based on that – it is essentially treated as money paid in, similar to taxes withheld from wages.

Similar to the EIP credits, qualifying taxpayers received up to half of their Child Tax Credit as monthly payments from July through December of 2021 unless they opted out. Anyone who received these payments will need to include them on their 2021 tax return in order to reconcile those payments with the amount of credit they actually qualify for. As with the EIP payments, the IRS will be sending a letter to all recipients stating the amount paid; please include this letter when you send us your tax documents. Unlike the EIP payments, any overpayment of the Child Tax Credit must be repaid.

Child and Dependent Care Credit

Not to be confused with the Child Tax Credit, the Child and Dependent Care Credit was also boosted. For 2021 only (as of this writing, anyway) the qualifying expenses for this credit were boosted from \$3,000 per dependent to \$8,000 per. The credit was also temporarily made refundable, meaning it can generate a tax refund even when it exceeds the taxpayer's actual tax liability. For those utilizing the Dependent Care Benefit program through their employer, the qualifying expense limit was temporarily raised from \$5,000 per household to \$10,500.

Other Covid-Related Tax Provisions

After a tumultuous series of rules and reversals and revisions, Congress and IRS eventually made it clear that loan amounts forgiven under the Paycheck Protection Program are not taxable income, nor do they reduce owners' basis in their companies.

More people will qualify for the Earned Income Credit, especially those without children. Age and income limits have been adjusted .

Forgiveness of many student loans will be non-taxable through 2025.

The Premium Tax Credit (for health insurance purchased through state exchanges) has been temporarily increased. Certain taxpayers may also qualify for a 100% subsidy of COBRA benefits.

The IRS has established a section on their website specifically for Covid-19 tax relief information. Visit www.irs.gov/coronavirus for more information.

Other Changes

Business meals are 100% deductible for 2021 and 2022 instead of the old 50% limit. Entertainment expenses remain non-deductible, however. Both the 2021 Earned Income Credit and the refundable portion of the Child Tax Credit may be calculated based on 2019 or 2021 earnings, whichever works best.

Taxpayers who claim the standard deduction can now claim a deduction for up to \$600 (if married - \$300 for singles) 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 gift tax exemption remains \$15,000 per recipient per year for 2021, but climbs to \$16,000 for 2022.

The Tuition and Fees deduction has been eliminated in favor of increased availability of the American Opportunity and Lifetime Learning credits.

New Taxes in Oregon and Washington

Starting 1/1/22 the state of Washington now has a capital gains tax that applies to sales of assets generating long-term gain (over 1 year holding period) of \$250,000 or more. The tax rate is 7% and numerous exemptions apply, most notably sales of real estate. Presumably there will be a new form coming out to calculate and report this tax. It is worth noting that Washington's constitution disallows income-based taxes, so a court challenge seems inevitable. Until that is resolved, however, we are stuck with it.

In Oregon, both Multnomah County and the City of Portland have enacted new personal income taxes. Both started 1/1/21. The county tax is a flat 1.5% on income over \$125,000 for individuals (\$200k married) plus an additional 1.5% on income over \$250,000 (\$400k married). This revenue will fund free county-wide preschool programs. The city tax is a flat 1% on individual income over \$125,000 (\$200k married) and on net profit of businesses with gross revenue exceeding \$5 million. Revenue generated will fund housing services for people at risk of or experiencing homelessness.

Virtual Currency

The IRS continues their hunt for unreported sales of virtual currencies such as Bitcoin, Ethereum, and others. Many questions remain unresolved at this point, such as how to report income from staking and whether foreign wallets fall under the foreign bank account reporting rules. What is very clear, however, is that the IRS still considers virtual currency to be property. Therefore, receipts of virtual currency are **not** excludable from income and payments for goods or services via virtual currency are considered sales of those currencies. If you bought your morning mocha with one-ten-thousandth of BTC last year, we need to know about it because you have a reportable tax transaction. We'll also need to know when you purchased that one-ten-thousandth of BTC and what you paid for it. Folks – this could get ugly. There are plenty of apps out there that will gather the information from your wallet(s) and organize it in a format that works for tax preparation, see ZenLedger.io for a good example (we have no affiliation with them, they just seem to produce a good product).

Other News

Oregon now has a Taxpayer Advocate office, similar to the currently existing federal office. It is administered by Oregon Department of Revenue, but is an independent office designed to be the voice of the taxpayer. If you are unable to resolve your tax issues with ODR, the Taxpayer Advocate office might be able to help. Note, however, that you generally must exhaust all available options with ODR before the Advocate office is likely to help.

Cell Phone Photos and Data Security

Our new secure e-mail system seems to be working well. 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, but may discontinue it at some point, so please be sure you have copies of any documents you have stored there.

Please consider downloading and using a scanner app to send us documents from your phone or other mobile device. Adobe Scan and Tiny Scanner are both excellent and free. These apps use your phone's camera to create highly readable PDF documents.

If you prefer to send us photo images of documents (jpg format, for example), please observe the following guidelines:

- 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 now allows 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.

Our Mask & Vaccination Policy

Can we set politics aside for a moment? No one likes being sick, especially self-employed folks like us who don't have the luxury of paid time off. Please avoid visiting our office in person if you are feeling sick or have recently been in close contact with a sick person – we'll be happy to meet with you via Zoom instead. Same goes if you're not fully vaccinated against any highly transmissible disease such as Covid-19, measles, etc. If any of these apply to you and you choose to visit our office anyway, please at least wear a mask and sanitize your hands. We'll do the same.

Thank You

Thank you so much for your continued trust and business. These past couple years have been a wild ride; we feel very blessed to have survived and thrived in a time when many are struggling.

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