

Year End Newsletter

Carmela Davis, CPA, PLLC & Staff

Happy New Year

Office Management - Crystal M & Stephen K

Office Staff- Kathy P, Melissa R, Shannon M, Cynthia W, Sharon E, Maggie H, Melissa M, Erin B, Adrian T, Kenton G, Christi W, Kevin C, Ashley J, Ben, Damaris G, Caitlyn, Cathy B, Celeste, Sandy & Cathy L

We will be giving you the changes that are in place for the next year plus reminders for the upcoming year. Visit our web site throughout the year www.carmeladaviscpatx.com.

714 NORTH HIGH ST - 903-753-3329
(Across from the Cable Company)

2304 GILMER RD 903-297-5600
(In front of Wal-Mart - across from Whataburger)

TAX SEASON HOURS

Our hours for tax season beginning January 3rd are as follows UNTIL April 18th. We will close our offices at 5pm that deadline day.

Mon - Fri 8 AM - 7 PM Saturday 8 AM - 5 PM

FILING DATE

The first day to electronic file will be 1/31/22 this year. Even if you mail in your return IRS will not process any tax returns until after 1/31/22 most likely not until mid-February.

IRS announced that there will likely be tax refund payment delays. Particularly with those claiming Earned Income Credit, Additional Child Tax Credit and Education Credit - these refunds may not be processed until mid to late February.

IMPORTANT ITEMS

A **MUST ALWAYS** bring in a valid ID - Driver's License, etc. We cannot complete your return without this. **ALSO**, if you are adding a new dependent or you have changed your name you **MUST** bring in a Social Security card for those individuals.

An additional secured option of getting data to us is through our program - Canopy. We will send the invite to your email - you need to accept the invite in 3 days and set up your password - which only you will know the password - we have no access to that information.

Additionally, we can prepare any manual 1099s for you. We need the company name, address and ID number issuing the 1099s along with the person you are sending the 1099 to which includes their name, address, and dollar amount. Please note that if you are sending a 1099 to a company name they must have an ID number - Companies do not have Social Security numbers - so if they do not have an ID number then that 1099 needs to be sent to that individual instead.

REMINDER OF W2 & 1099 DEADLINES

Remember you must file copies of Form W2 & Form 1099s NEC for payments to independent contractors (contract labor) by January 31st. There are no automatic extension of time to file these forms. The amount for the penalties for filing 1099s late - \$50 per each up to 30 days late; 31 days late to Aug 1st - \$110 per return; after Aug 1st or Not At All - \$270 per return & Intentional Disregard is \$550 per return.

PAYROLL LAW CHANGES

For 2021 - maximum cap for social security is \$142,800 & for 2022 the amount will increase to \$147,000. Also, if you are receiving your benefits and you're not 66 you can earn up to \$18,960 without having to give up any of your benefits for year 2021.

REMINDERS FOR 2021 RETURNS

MILEAGE RATE - Qualified business use for 2021 is 56 cents and for 2022 rate is 58.5 cents a mile.

For Medical or moving purposes for 2021-16 cents a mile and 2022 - 18 cents per mile.

For Charitable purposes - 14 cents per mile for both 2021 & 2022.

EXTENSIONS

ADVANTAGES OF FILING AN EXTENSION:

You get more time to file. This helps taxpayers gather all their documents such as K-1 forms - if you do file an extension make sure you pay at least 90% of the estimated amount of tax you owe by April 15th to avoid the *Late Payment Penalties*.

PERSONAL EXEMPTION/STANDARD DEDUCTION

*For 2019- 2025, personal exemption is zero.

STANDARD DEDUCTION FOR 2021

*Single or Married Separate - \$12,550

*Married filing joint - \$25,100

*Head of household - \$18,800

Additional standard deduction for 65+ and blind taxpayers:

*Single \$1,700

*Married filing joint \$1,350

*Head of household \$1,700

PER DIEM MEAL ALLOWANCE 2021 - 2022

Transportation Industry	
Travel inside the U.S.	\$69 day
Incidental expenses only	\$ 5 day
Standard per diem rate - M&IE	\$59 day
Standard per diem rate - Lodging	\$96 day

EARNED INCOME CREDIT

The maximum amount of income a taxpayer can earn and still be eligible for the earned income credit increased. If earned income or AGI exceeds the following amounts, the Earned Income Credit is zero.

2021

**Single - no children	21,430
**Head of Household - 1 child	42,158
**Head of Household - 2 children	47,915
**Head of Household - 3 children	51,464
**Joint - no children	27,930
**Joint - 1 child	48,108
**Joint - 2 children	53,865
**Joint - 3 children	57,414

**Maximum Earned Income Credit -

One qualifying child	\$3,618
Two qualifying children	\$5,980
Three or more qualifying children	\$6,728
No qualifying children	\$1,502

Interesting in 2022 the Earned Income Max. Credit continues to increase except for those with No qualifying children is reduced back to \$560. I am sure this is subject to change, but this is the law for now.

The max amount of investment income to get the EIC is \$10,000 for 2021.

Remember you cannot receive Earned Income Credit if filing Married Filing Separate.

Due to the extreme fraudulent Earned Income Credit filed, the IRS may ask you to provide documents to prove you are entitled to the EIC. These may include birth certificate, school records, etc.

CHILD TAX CREDIT

VERY IMPORTANT - if you got advance child tax credit payments, the IRS will send you an information letter in January. **HOLD ON TO THE LETTER - BRING it to us when we are preparing your tax return.** The letter is called Letter 6419: 2021 Advance Child Tax Credit (CTC). It will verify the amount you got in advance payments during 2021. It will also verify the number of children who qualified to determine these payouts. If there are any mistakes, remember its up to you to fix it - or we can assist.

As it stands now, child tax credit payments won't continue into next year. There is a chance that it will be extended in the Build Back Better Act, which was passed in the House and awaiting action in the Senate.

For 2021, the American Rescue Plan Act (ARP Act) expanded the child tax credit (CTC) to include 17-year-olds & increase the credit from \$2,000 per eligible child to:

*\$3,600 for each child under age 6

*\$3,000 for each child age 6 to 17

The increased credit amount - the additional 1,000 or 1,600 begins to phase out at:

DEPENDENTS

- *\$75,000 if Single
- *\$112,500 for Head of Household
- *\$150,000 for Married Filing Joint

For any dependents that file their own tax return we must get a copy of that tax return if YOU are claiming the dependent. The IRS rejects the tax returns if filed incorrectly and can cause other issues – so to insure that the filing was done correctly by your dependent we must review their return.

Any new dependent we must have a copy of their social security card & birth certificate.

Once the increased credit amount is reduced, the regular \$2,000 credit begins to phase out:

- *\$400,000 for Married Filing Joint
- *\$200,000 for all others

The child tax credit is fully refundable for 2021 if the principle place of abode is in the USA for more than one-half of the year. (this is after all phase outs apply)

For 2022, the refundable portion will only be \$1,500 (as of now)

2022 FILING SEASON CHANGES FOR 2021 TAX RETURNS

EDUCATION CREDITS – For 2021 & 2022 –

Lifetime Learning Credit	\$2,000
American Opportunity Credit	\$2,500
New Phaseout for 2021 – 2022 for both American Opportunity and Lifetime Credit MFJ	\$160,000 - \$180,000
Single/Head of Household	\$80,000-\$90,000
Married Filing Separate	– Not Available

EDUCATOR EXPENSE DEDUCTION – An eligible educator can take above the line deduction for out-of-pocket classroom expenses – For 2021, the deduction may not exceed \$250 & for 2022 the amount is \$300.

SOCIAL SECURITY – For 2021, the max wages subject to Social Security is \$142,800. For 2022 the maximum amount is \$147,000

ANNUAL GIFT TAX EXCLUSION – For 2021, the annual amount is \$15,000. For 2022, the amt increases to \$16,000.

ESTATE TAX EXCLUSION – The estate tax exclusion is \$11,700,000 for 2021 and for 2022 the amount increases to \$12,060,000. This is still an area that may be changed in upcoming tax law changes.

ADOPTION CREDIT – The max nonrefundable credit increased to \$14,400 for 2021. Begins to phase out when adjusted gross income exceeds \$216,660. In 2022 the max credit increases to \$14,890.

STIMULUS CHECK/ECONOMIC IMPACT PAYMENT LETTER

IMPORTANT - The IRS will begin issuing Letter 6475, Your Third Economic Impact Payment to recipients in late January.

This letter must be given to us to prepare your 2021 tax return. It will only apply to the third round of payments.

CHILD & DEPENDENT CARE CREDIT

For 2021, the credit is fully refundable. Also, the dollar limit for eligible expenses increases from \$3,000 to \$8,000 for one eligible child to \$16,000 for two or more. The max credit rate increases from 35% to 50% and the AGI level increases from \$15,000 to \$125,000.

FURTHERMORE – when we request you complete the WHOLE client info packet –it's **REQUIRED** information to complete your return in an accurate manner. Remember you can download this packet from our website prior to coming in or request one at officecpa@cldcpa.com

RETURN DUE DATES & EXTENSIONS

The **PARTNERSHIP & Sub S Corp.** filing deadline is March 15th. Then both can be extended to Sept 15th.

C Corporations deadline is April 15th deadline & extended six months to October 15th.

KIDDIE TAX - For 2021, this applies to a child who is required to file a tax return, does not file a joint return, has at least one living parent, has more than \$2,200 (for 2022 - \$1,150) of unearned income (such as interest or dividend income) and is any one of the following:

- *Under age 18 at the end of the year
- *Age 18 & did not have earned income that was more than half of their support
- *A full-time student over 18 & under 24 & did not have earned income more than half of their support
- *After 2019, the child's unearned income is taxed at the parents' tax rates if higher not in the 22% bracket which means you need to withhold even more - please ask us at tax time to review this.

CAPITAL GAINS RATES - This could have been bad as there was lots of discussion to increase this rate tremendously and to even tax unrealized gains - HOWEVER - the top rate for capital gains is permanently set at 20% for taxpayers with taxable income in the highest bracket. The net investment income tax (NIT) of 3.8% makes the overall capital gain rate for higher income taxpayers effectively 23.8%.

BUSINESS MEALS - Effective for 2021 and 2022 only, a business can deduct 100% of the cost of a business meal that is purchased in a restaurant. Business meals purchased at any other venue are still subject to the 50% limitation, unless one of the other 100% provisions apply.

CHARITABLE CONTRIBUTIONS - Effective for 2021, up to \$300 (\$600 MFJ) of qualified charitable contributions are deductible after AGI, and the 60% AGI limitation for cash contributions is increased to 100%

UNEMPLOYMENT BENEFIT -
Unemployment compensation is fully taxable in Year 2021.

MEDICAL EXPENSES - It is now permanent for all years beginning after December 31, 2020 the limitation is 7.5% of AGI (Adjusted Gross Income)

PAYPAL AND VENMO 1099S

Under the American Rescue Plan, changes were made to Form 1099-K reporting requirements for the third-party networks like Venmo and PayPal. If you are selling goods or services on platforms like eBay, Etsy, etc you will be issued a tax form called 1099-K for online sales totaling \$600 or more starting next year for sales made in 2022.

Currently, online sellers only received these forms if they had at least 200 transactions worth a combined \$20,000 or more.

Don't worry this is only for payments received for goods and services. So this doesn't include things like paying your family or friends back using Venmo for dinner, gifts, shared trips, etc.

How will the IRS know whether I am paying for goods or services? PayPal or Venmo users tag their transactions as either personal/friends and family or goods and services when they are purchasing an item or paying for a service.

CARMELA'S MAGICAL SANTA LAND

I want to thank each & every one of you who came through & enjoyed the lights!! Please like us on Facebook - *Carmela's Magical Santa Land*

ALSO, like Carmela Davis, CPA on Facebook.

GETTING PREPARED

We have organizers available upon request - email me at cpa@cldcpa.com or come by & get your copy. There is no charge for this & it should help you gather your documents.

We have worksheets that are available for the following schedules: (on our website www.carmeladaviscpatx.com under the "Forms" tab)

Schedule C - Business Income & Expenses

Schedule E - Rental or Royalty Income

Schedule F - Farm Income & Expenses

These forms are helpful when gathering tax data. You don't need to bring in your receipts unless you want us to review them.

MESSAGES

To get ahold of Carmela - the best way is to email her at cpa@cldcpa.com & put in the subject matter "Tax matter". This is the most effective way for her to communicate back as it can be anytime of the day. Most of the time the response will be late in the evening.

QUICK BOOKS

Are you struggling with your QuickBooks? Do you not know how to begin? Do you have a secretary that needs assistance - whether desktop or online we can assist you in the initial setup and/or training you or any of your employees.

Note that if we pull and/or print your QuickBooks there will be a charge for the amount of time it takes. Many times, this is a lengthy process. To avoid these charges please bring with you a history general ledger (1/1/21 - 12/31/21); a balance sheet 12/31/21; profit & loss 1/1/21- 12/31/21

We can assist in setting up your Quick Books or review the data monthly, quarterly, semiannually. If we review your data throughout the year this will assist you on having the accurate information for the tax return.

We also can assist you in entering your data monthly into your Quick Books.

PAYROLL/BOOKKEEPING

We offer numerous payroll services. Our rates are very minimal and you will find if you get penalized one time by the IRS regarding your payroll it will cover our cost for nearly a year.

We also offer numerous bookkeeping services to fit your business needs. Monthly Bookkeeping many times is cheaper than us summarizing the information just once a year during tax season. The cost is very affordable.

****PLEASE** If you have brought in items for us to summarize - a box full of receipts, etc - this year or from prior year - **PLEASE** make sure you pick those up when you come in.

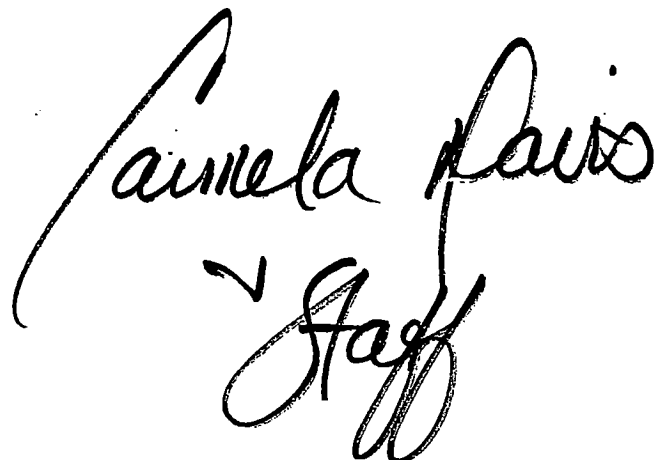
OUR STAFF TO ASSIST YOU

We apologize if you are not able to get an appointment with Carmela. However, we have several long time staff members that are available to meet with you & to go over your information. Remember that Carmela reviews every tax return before you are notified of the outcome. We strive to assist you in your tax preparation, tax planning, bookkeeping, payroll, financial statements & of course with the IRS.

Appointments can be made with any of our qualified tax specialists.

Thank you & we are looking forward to a great year in 2022 for the tax season - 2021.

Carmela Davis CPA, PLLC & Staff
Merry Christmas and Happy New Year



A handwritten signature in black ink that reads "Carmela Davis" in a cursive script. Below the name, there is a checkmark and the word "Staff" written in a similar cursive style.