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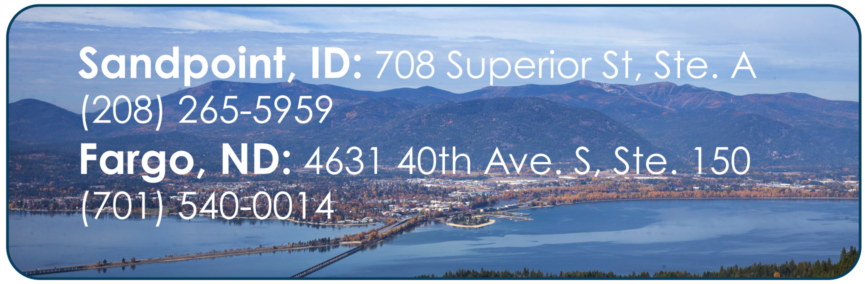

2021 Year End Tax Letter

Firm News

The last two years, 2020 and 2021, have brought challenges, changes and growth for our Firm. Last year we did not send our annual letter, instead we focused our energy on generating time sensitive information for our clients to adapt to the rapidly changing business and tax environment as a result of the COVID-19 pandemic. This year, we want to bring back this resource.

Our Sandpoint and Fargo branches have been steadily growing, and we have added to our team in both offices. As you may already be aware, we revamped our name to Williams and Schiller, PC back in 2020. Brad Williams, CPA and Mark Schiller, CPA have continued to be the leading partners at the Firm and in their respective offices.

The Sandpoint branch remains at the same location at 708 Superior Street, though many have noticed we have new carpets! We have welcomed new staff to this office as well as promoted some staff within. We excitedly welcomed our new receptionist, Suzi Cochran to the team. Suzi started with us in March 2021. She has been working closely with Kim Queen, our office manager, and other staff to contact clients and assist in administrative work.

The Sandpoint branch has also made two tax staff additions since we sent out our 2019 newsletter: Cheryl O'Boyle and Mariah Williams. Cheryl O'Boyle is a Certified Public Accountant (CPA) who was initially hired in our bookkeeping department in November of 2018. As Cheryl gained knowledge and experience, she started partially working in our Firm's tax department while maintaining her bookkeeping status. By early 2021, she had fully transitioned her focus to the tax team, transitioning much of her bookkeeping with the new hire of Maggie Hayes. Cheryl has spent many years in corporate accounting, has a solid background in S-corporation tax law, and wide-ranging knowledge of our Firm's clients.

Mariah Williams, a Certified Public Accountant (CPA) and Certified Management Accountant (CMA), has made an excellent addition to the team, as well. Mariah started with us in September of 2020. Mariah has been focusing largely on individual tax, business consulting, nonprofit tax and consulting, and audit. She has been our office's primary point for COVID-19 business relief programs, assists higher ranking tax staff with various internal and client projects as well as heads many of her own projects within the Firm.

The Fargo branch, located at 4631 40th Avenue South, has also continued to grow by welcoming Accounting Associate Maggie Hayes, a highly skilled team member who brings an extensive knowledge of business accounting services; Maggie was hired in January of 2021. She has made it possible for Cheryl to change her focus to the Tax team, taking over much of the bookkeeping projects within the Firm. We are pleased to have Maggie on board.

Associate Mikayla Cargile, formerly Kosolofski, continues to work alongside Schiller and Hayes in the Fargo branch building her skills in individual tax, international tax, business tax, and business valuations. Mikayla is working diligently toward becoming a Certified Public Accountant (CPA).

Firm News
continued

Brett Sweezy is continuing to focus primarily on the Firm's international tax clients and as in prior years, will assist with our internal tax review process. He will remain part time with our Firm, but rest assured, Brett will still be available to assist with the seamless transition of his clients to other CPAs within the office throughout the upcoming tax season and ongoing years.

With our highly skilled, well-rounded, and capable staff, we are excited for the future and for our increased ability to carry out the complete range of tax and financial services for individuals and businesses.

We look forward to the holidays and New Year ahead. We want to say thank you to all of you, our clients and friends, for making 2021 such a momentous year for us, personally and professionally. We sincerely appreciate the trust you have given us and are excited to see what the future has in store.

Be watching your mail for our Firm organizers in the first few weeks of the new year. We have no specific deadline for returning the organizers, but the sooner the better. We ask that you expect roughly two weeks for us to prepare your return and longer during the heaviest time of our busy season.

Please read on for some end-of-the-year tax planning and tips, and other items of interest for financial health and well-being. Please note that there may be some huge new tax law changes coming, but we can't tell exactly what they are going to be, yet.

Important Tax Deadlines	
January 18th, 2022	Fourth Quarterly payment due
March 15th, 2022	Deadline for partnerships, multi-member LLCs, and S corporations without an extension
April 18th, 2022	Deadline for individuals, sole proprietorships, LLCs taxed as disregarded entities, and C Corporations First Quarterly estimate due
June 15th, 2022	Second Quarterly estimate due
September 15th, 2022	Deadline for partnerships and S Corporations with extension Third Quarterly estimate due
October 17th, 2022	Deadline for individuals, sole proprietorships, C-corporations and LLCs taxes as disregarded entities with extension
December 15th, 2022	Fourth Quarterly payment due- C corporations only

Looking Forward

The most prominent thing to note for the upcoming tax season is Biden's proposed tax law. In May 2021, the "Green Book" was released by the U.S. Department of Treasury. The Green Book includes Biden's administration proposals. More recently, the House Ways and Means Committee released proposed legislation that includes some of the President's proposals while modifying and omitting other changes proposed in the Green Book.

Within these proposed tax law changes are increased individual and business tax rates for taxpayers, higher capital gains tax rates for high-income individuals, removal or reduction of certain tax breaks, and much more. There has been some pushback from Republicans and some Democrat lawmakers. It is still unclear which proposal changes, if any, will be passed.

To get the most recent updates, keep in contact with our team. Depending on the outcomes of the coming months, you and your business should be ready to make some last-minute tax planning moves up to December 31st, 2021.

Year End Tax Planning for Individuals & Businesses

Individuals

Tax Laws: What's new and what's been updated for 2021

Charitable contributions
For 2021, taxpayers are receiving an above-the-line deduction for charitable contributions. This means that even if you don't itemize, you may still be able to take advantage of a deduction for giving to a charitable cause.

- Single taxpayers - $300
- Married filing joint - $600 deduction

The 2021 limit for charitable contributions is 100% of your income unless you are donating a noncash contribution. A noncash contribution is limited to 50% of your income in 2021.

*Idaho taxpayers, also keep in mind the education tax credit! Individuals are eligible for a credit worth 50% of the gift—up to $1,000 for those married filing jointly or $500 for single filers. The law also allows corporations a credit of 50% of the gift up to 10% of their gross income - to a maximum of $5,000. The Idaho Credit is available every year regardless of whether you itemize your deductions or take the standard deduction.

2021 Standard Deduction			
Filing Status	2021	2020	Change
Single	$12,550	12,400	$150
Married Filing Joint/ Widow	25,100	24,800	$300
Head of Household	18,800	18,650	$150
Married Filing Separate	12,550	12,400	$150
Elderly/blind: married	+$1,350	+$1,300	$50
Elderly/blind: unmarried	+$1,700	+$1,650	$50

Unemployment & Child Tax Credit

Unemployment Compensation

If you received unemployment compensation during 2020, you know that you could exclude up to $10,200 ($20,400 if married filing joint) of your unemployment benefits. Unfortunately, **this exclusion will not be rolling forward into 2021.**

Are you taking advantage of tax credits that you qualify for? See what's new:
There have been multiple new or modified credits for the 2021 tax year that could significantly affect your tax return. If you think you may qualify for any of these and want to discuss it, reach out to our staff and we will be happy to advise you.

Lifetime Learning Credit
The tuition and fees deduction has been replaced. Tax law has expanded the income limit for those eligible for the lifetime learning credit. The new credit is worth up to $2,000 per tax return and it covers many of the same costs and the prior deduction.

Child Tax Credit (CTC)
The Child Tax Credit has increased significantly in 2021. For the 2020 tax year, the Child Tax Credit was $2,000 for children of all ages. For the 2021 tax year, it has gone up!

Age of child	Children age 17 and under can qualify for the credit
Credit Amount	$3,000 per child and $3,600 for children under the age of 6
Refundable?	Fully refundable
Income	No income requirement, you can have zero income and still qualify for the full credit amount per child
Advance Payments	Periodic advance payments between July to December 2021
Phase Out Rate	The CTC amount will start to decrease at $75,000 for single filers ($150,000 for married couples and $112,500 for heads of households)

******IMPORTANT*** If you have been receiving advanced payments from this new credit, please keep good track of the payments you have received from July to December and report it when you provide your tax information (the IRS will also send you a letter, letter 6419). This amount will need to be reflected on your 2021 tax return. If the amount you report to your tax accountant is inaccurate, it will surely be flagged by the IRS and you will receive correspondence about this. This additional correspondence could cost you money.***

Child and dependent care credit

This is a tax credit that may help you pay for the care of eligible children and other dependents (qualifying persons). On your 2020 return, if you have one qualifying child or dependent, you could save up to $1,050 and if you had two qualifying children or dependents, you could save up to $2,100. However, for the 2021 tax year, those amounts have increased to $4,000 and $8,000 respectively. This credit is also being discussed as potentially refundable (to be determined). If you qualify for this credit, you do not want to miss out on the huge tax savings you could receive.

If you have one qualifying child or dependent, you may claim up to $8,000 of dependent care expenses and receive a 50% tax credit. This results in a $4,000 maximum tax credit.

If you have more than one qualifying child or dependent, you may claim up to $16,000 in dependent care expenses. As with having one dependent, you will receive a 50% tax credit resulting in a maximum credit of $8,000.

There is no age limit to be a dependent. For dependents to be claimed, they must only meet the dependent qualifications.

Please note that both you and your spouse must be working and have an AGI that is less than $125,000 to qualify for this credit. If you feel you may qualify for this credit, there is some information you will need from your daycare/organization that provides care for you dependent. The information needed is the name of the provider, the provider's address, and the provider's taxpayer identification number (TIN). This can all be found on form W-10.

Earned income tax credit

On your 2021 tax return, if you live in a household with no children, you may claim an earned income tax credit up to $1,502, compared to the 2020 earned income tax credit of $543. Please reference the table below for the changes of the Earned income credit for households with children. To qualify for this credit, you must be 18 years or older.

Maximum Earned Income Tax Credit			
	2021	2020	Change
No Children	$1,502	$538	$964
1 Child	3,618	3,584	$34
2 Children	5,980	5,920	$60
3+ Children	6,728	6,660	$68

Income Brackets for 2021 Tax Rates				
Tax Rate	Single	Married filing Joint	Head of Household	Married filing separate
10%	$1-9,950	$1-19,900	$1-14,200	$1-9,950
12%	9,951-40,525	19,901-81,050	14,201-54,200	9,951-40,525
22%	40,526-86,375	81,051-172,750	54,201-86,350	40,526-86,375
24%	86,376-164,925	172,751-329,850	86,351-164,900	86,376-164,925
32%	164,926-209,425	329,851-418,850	164,901-209,400	164,926-209,425
35%	209,426-523,600	418,851-628,300	209,401-523,600	209,426-314,150
37%	Over $523,600	Over $628,300	Over $523,600	Over $314,150

Could You Be Receiving Tax Free Income?

There are several different types of tax-free income a taxpayer can receive. Here is a list of several common examples of income that the IRS can't touch:

1. **Tax-Free Interest**
   You do not pay taxes on municipal bond interest. These are bonds that are issued either by the state or the municipality.
2. **Health Insurance Premiums**
   Currently, most health insurance premiums are not taxed. This is subject to change in the future to help pay for Biden's proposed healthcare reform. However, for a vast majority, this benefit can be paid using pre-tax dollars.
3. **Income from Roth IRA and Roth 401(k) accounts**
   Although you will be taxed on the amounts you contribute to these retirement savings accounts, anything you earn on said contributions will be tax free for federal income tax purposes assuming the holding period and distribution rules are followed.
4. **Health Savings Accounts (HSA)**
   Regarding HSAs, both your contributions are deductible and your earnings are tax-free given that disbursements from the account are used to pay for qualified health care expenses.
5. **Child support received**
   There is no federal tax on any qualified child support you receive.
6. **Car Pool Revenue**
   Although most commuting expenses are not deductible, if you receive reimbursement for your commuting by fellow passengers, you do not need to report this as income.
7. **Home Sale Gains**
   Capital gains on a sale of your principal residence can be tax free up to $250,000 for single filers and $500,000 for joint filers.

Year End Tax Planning for Individuals & Businesses

2021 Mileage Rates			
Category	2021	2020	change
Business	$0.56/mile	$0.575/mile	$-0.015/mile
Medical	0.16/mile	0.17/mile	$-0.01/mile
Charitable	0.14/mile	0.14/mile	$0

Reasons to Review your Social Security Earnings Report

When was the last time you checked your Social Security earnings report? If the answer is never, then you are among the majority of taxpayers. Be advised to take caution as the Social Security Administration (SSA) can and has made errors and accidental omissions.

You are the only person that will catch these errors and these errors are only caught by reviewing your Social Security Earnings Report. If you wait until retirement, it may be too late to correct any errors made 10-20 years in the past. Common issues and their effect can be:

Incorrect amounts

- If your employer doesn't send a W2 wage statement to the SSA, you will not receive a credit for these earnings. If you have missed earnings, your retirement check will be permanently lower.

Missed Earnings

- On top of receiving credit for your earnings, you must also work a certain number of quarters to be eligible for retirement benefits. These missing earnings reports will reduce your number of quarters you must work. If this is missed, you may not qualify for any benefits whatsoever.

Three-year correction time limit

- You may correct an earnings report at any time up to three years, three months, and 15 days after the year in which the wages were paid or the self-employment income was derived, per the SSA. There are exceptions for fraud and obviously clerical errors.

  There are several actions you can take to add some assurance to the accuracy of your Social Security. If this is something you are interested in and want to speak with a staff member, set up an appointment!

Business

Although there is still much uncertainty circling around proposed tax law changes, there is still time to reduce your federal income tax bill. Below are some possible options for business owners to consider. Keep in mind- congress is still considering some major tax changes. If they are approved, it's unclear when they will all take effect.

1. Claim 100% First-Year Bonus Depreciation for Asset Additions

Because of the Tax Cuts and Jobs Act (TCJA), 100% first-year bonus depreciation is available to qualified new and used property that's been acquired and placed in service in the calendar year. This is a particularly useful write off for businesses that are reporting higher than usual revenue in the 2021 calendar year.

One thing to consider before taking bonus depreciation is the potential significant tax-rate increases for 2022 and beyond. It may be more beneficial to forgo the 100% first-year bonus depreciation and depreciate the asset over a number of years. If the tax rates go up, the future depreciation write offs could be worth more in the long run than the 100% write off.

Bonus depreciation is still eligible for any assets acquired between now and December 31st. If you are unclear as to which assets apply, contact our tax staff and we will gladly discuss this with you.

2. Write Off New of Used Heavy SUV, Pickup, or Van

New or used heavy vehicles that are used over 50% for business also qualify for 100% bonus depreciation. This is because heavy SUVs, pickups, and vans are considered to be transportation equipment and, in turn, qualify for 100% bonus depreciation.

The SUV, pickup, or van must have a manufacturer's gross vehicle weight rating (GVWR) greater than 6,000 pounds to qualify. The GVWR can be confirmed by looking at the manufacturer's label. The manufacturer's label is typically found on the inside edge of the driver's side door where the door hinges meet the frame. If you are considering purchasing an eligible vehicle and placing it in service before the year-end, your tax write off could be significant.

As stated above, the potential future tax-rate increases may make it more beneficial to forgo the 100% first-year bonus depreciation and depreciate the newly acquired asset over a number of years.

3. Deferring Income and Accelerating Deductions
If your business operates as a pass-through entity such as a sole proprietorship, S corporation, partnership, or LLC taxed as a partnership, then your share of various tax information is accounted for on your personal return. This means your net income is taxed at personal federal income tax rates.

Compared to 2021, if you are expecting to be in a same or lower federal income tax bracket in 2022, then the traditional strategy of deferring taxable income into next year while accelerating deductible expenditures into this year makes sense. Doing these will, at the least, postpone some of your tax bill from 2021 to 2022.

However, if compared to 2021, you are expecting to be in a higher tax bracket in 2022, then accelerating income into this year (if possible) and postponing deductible expenditures until 2022 may be more beneficial.

4. Qualified Business Income Deduction for Pass-through Entities
This deduction is based on the individual's qualified business income (QBI) from pass-through entities. It was brought forth by the TCJA. Qualified businesses may deduct up to 20% of the pass-through entity owner's QBI. However, this deduction is subject to various restrictions that start to apply at higher income levels and are also based on owner's taxable income.

Pass-through entities that qualify for the QBI deduction are sole proprietorships, single-member LLCs treated as sole proprietorships, Partnerships, LLCs treated as partnerships, and S corporations. Business owners may also claim a QBI deduction for up to 20% of qualified REIT dividends and up to 20% of qualified income from publicly traded partnerships.

Something to keep in mind while considering year-end tax planning is there are limitations on the QBI deduction. For instance, if you make some year-end decisions to reduce your taxable income, you will have a negative side effect of reducing your QBI deduction for this year as well. If you want to optimize your results with this deduction, consult our tax staff. We will be happy to give you a more in-depth analysis.

5. Establish a Retirement Plan
Current retirement plan rules allow for substantial deductible contributions. If your business doesn't already have a retirement plan, now may be a good time to reconsider.

As an example, if a taxpayer is self-employed and has set up an SEP-IRA, then he/she may contribute up to 20% of his or her self-employment earnings with a maximum contribution of $58,000. If the taxpayer is in the 32% federal income tax bracket, then the tax break could be up to $18,560 for 2021 (32% times $58,000).

There are other retirement plan options for small businesses such as:

1. 401(k) plans, which can even be set up for just one individual
2. Defined benefit pension plans
3. SIMPLE-IRAs

These retirement plans may allow larger deductible contributions for you depending on your circumstances. There are particular guidelines and due dates for these retirement plans. If you are not sure about the retirement plan rules, contact our tax staff and we can get you in the right direction.

Section 179 Maximums

Limits	2021	2020	Change
Section 179	$1.05 million	$1.04 million	$10,000
Property limit	$2.62 million	$2.59 million	$30,000

Deduction of state income tax for business owners
The 2017 Tax Cuts and Jobs Act included a provision that greatly increased the personal standard deduction and limited the deduction for state and local taxes – known as SALT – to $10,000 ($5,000 for single filers). This cap has impacted many of our clients, as they are generally limited on the amount of state tax they can deduct. With the blessing or the IRS, many states initiated a workaround that will allow partnerships and S-corporations to pay the state tax and deduct that state tax for federal purposes.

This is **new and complex law;** however, it will reduce federal tax for virtually all partnership and S-corporation owners. We have emailed out information on this topic, please reach out to our office if you'd like to discuss it further.

Protect Your Financial Future

Tax scams tend to rise during tax season or during times of crisis, and scam artists are using the covid pandemic to try to steal money and information from honest taxpayers. Below is a list of several common scams that fraudsters use to target people. We urge you to watch for these scams.

Phishing

Taxpayers should be alert to potential fake emails or websites looking to steal personal information. The IRS will never initiate contact with taxpayers via email about a tax bill, refund or Economic Impact Payments. Don't click on links claiming to be from the IRS. Be wary of emails and websites–they may be nothing more than scams to steal personal information.

IRS Criminal Investigation has seen a tremendous increase in phishing schemes utilizing emails, letters, texts and links. These phishing schemes are using keywords such as "coronavirus," "COVID-19" and "Stimulus" in various ways.

Fake Charities

Criminals frequently exploit natural disasters and other situations such as the current COVID-19 pandemic by setting up fake charities to steal from well-intentioned people trying to help in times of need. Fake charity scams generally rise during times like these.

Fraudulent schemes normally start with unsolicited contact by telephone, text, social media, e-mail or in-person using a variety of tactics. Bogus websites use names similar to legitimate charities to trick people to send money or provide personal financial information. They may even claim to be working for or on behalf of the IRS to help victims file casualty loss claims and get tax refunds.

Taxpayers should be particularly wary of charities with names like nationally known organizations. Legitimate charities will provide their Employer Identification Number (EIN), if requested, which can be used to verify their legitimacy.

Threatening Impersonator Phone Calls

IRS impersonation scams come in many forms. A common one remains bogus threatening phone calls from a criminal claiming to be with the IRS. The scammer attempts to instill fear and urgency in the potential victim. In fact, the IRS will never threaten a taxpayer or surprise him or her with a demand for immediate payment.

Phone scams or "vishing" (voice phishing) pose a major threat. Scam phone calls, including those threatening arrest, deportation or license revocation if the victim doesn't pay a bogus tax bill, are reported year-round. These calls often take the form of a "robocall" (a text-to-speech recorded message with instructions for returning the call).

The IRS will never demand immediate payment, threaten, ask for financial information over the phone, or call about an unexpected refund or Economic Impact Payment. Taxpayers should contact the real IRS if they worry about having a tax problem.

Senior Fraud

Senior citizens and those who care about them need to be on alert for tax scams targeting older Americans. The IRS recognizes the pervasiveness of fraud targeting older Americans along with the Department of Justice and FBI, the Federal Trade Commission, the Consumer Financial Protection Bureau (CFPB), among others.

Seniors are more likely to be targeted and victimized by scammers than other segments of society. Financial abuse of seniors is a problem among personal and professional relationships. Anecdotal evidence across professional services indicates that elder fraud goes down substantially when the service provider knows a trusted friend or family member is taking an interest in the senior's affairs.

Older Americans are becoming more comfortable with evolving technologies, such as social media. Unfortunately, that gives scammers another means of taking advantage. Phishing scams linked to Covid-19 have been a major threat this filing season. Seniors need to be alert for a continuing surge of fake emails, text messages, websites and social media attempts to steal personal information.

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