

The image features a dark blue background with a repeating pattern of stylized, overlapping chevron or arrow shapes pointing to the right. The shapes are in various shades of blue, creating a sense of depth and movement. In the center, the word "SAX" is written in a large, bold, white sans-serif font. Below it, the tagline "EXPECT MORE" is written in a smaller, white, all-caps sans-serif font.

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TAX WITH SAX: Q1 MAJOR UPDATES

February 15, 2022

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HOUSEKEEPING ITEMS



Meet Our Presenters



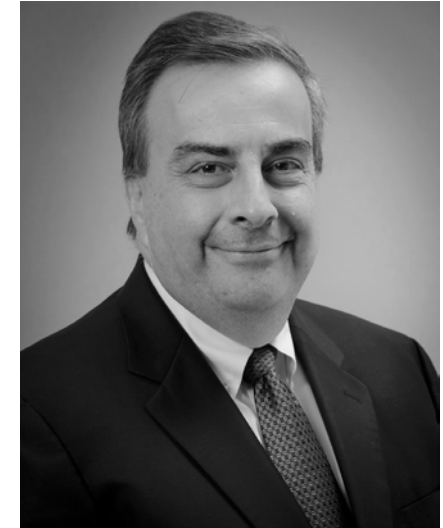
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Today's Agenda

- Schedule K-2/Schedule K-3
- 2021 Tax Compliance Process
- Common IRS Audit Triggers
- 2022 Annual Limits and Planning



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Poll #1

SCHEDULE K-2/ SCHEDULE K-3



Schedule K-2/K-3

- Schedules K-2 and K-3 are new forms for the 2021 tax year.
- Schedule K-2 is an extension of Schedule K and is used to report items of international tax relevance from the operation of an entity.
- Schedule K-3 is an extension of Schedule K-1 and is generally used to report to members/shareholders their share of the items reported on Schedule K-2. Members/shareholders must include the information reported on Schedule K-3 on their tax or information returns.
- A partnership or S corporation with no foreign source income, no assets generating foreign source income, and no foreign taxes paid or accrued may still need to report information on Schedules K-2 and K-3.
- For example, if a partner claims a credit for foreign taxes, the partner may need certain information from the partnership to complete Form 1116 or Form 1118

Schedule K-2/K-3

- Estimated time frame for the forms to be ready for e-filing :

Entity Type	Timeframe
Partnership	March 20, 2022
S Corporation	Mid – June 2022

- Tax Program to create PDF of the forms – may be ready by February 21, 2022



Schedule K-2/K-3

Entity Type	Pages
1120S : K-2	14
1120S : K-3	15
1065 : K-2	19
1065 : K-3	20

Schedule K-2/K-3

IRC	Penalty	Amount
6698	Failure to file or show information on a partnership return	\$210 per partner per month for a maximum of 12 months
6699	Failure to file or show information on an S corporation return	\$210 per shareholder per month for a maximum of 12 months
6721	Failure to file correct information returns	\$270 per failure
6722	Failure to furnish correct payee statement	\$270 per failure

2021 TAX COMPLIANCE & BEYOND



2021 Compliance

- Gathering Tax Documents
- W-2's 1099's provided to taxpayers
- Medical expenses – 7.5% of AGI
- Charitable contribution letters/support/appraisals
- Advance child credit letters from IRS - 6419 letters
- Self-employment income – retirement plans – still time
 - \$58,000 max for SEP
 - Cash balance plan, etc.



2022...and Beyond (For Now)

- Change in tax residency
 - Domicile
 - Statutory residency
- Mortgage interest deduction/limitation
- Leverage real estate for investing/business asset acquisition
- Portfolio investments – tax-exempt vs. taxable
 - 3.8% NIIT
 - State taxation consideration



2022...and Beyond (For Now)

- Installment sales – defer tax, reduce overall rate & 3.8%
- Qualified small business investing – Section 1202
- Charitable contributions of appreciated securities
 - Charitable Org's/Donor Advised Funds (DAF)/Private foundations
- Grouping of activities – active vs. passive losses
 - Section 469 – facts & circumstances
 - Similar types of trades or businesses
 - Extent of common control/ownership



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Poll #2

CURRENT IRS AUDIT TRIGGERS



IRS Status Updates

Recent IRS Challenges

- IRS Backlog as of December 23, 2021:
 - 6,000,000 paper 1040's
 - 2,300,000 amended 1040's
 - 2,000,000 form 941 and 941-X payroll tax returns
 - 5,000,000 pieces of correspondence
 - Millions of refunds not issued



IRS Status Updates

Recent IRS Challenges

- Collection letter relief and temporary suspension of notices
- Impacts of various COVID-19 pandemic relief programs
- Worse year ever for IRS according the to the taxpayer's advocate office
- IRS staffing levels decreased by 17% since 2010
- Total number of returns processed by IRS for most recent year 263,977,000



IRS Status Updates

Recent IRS Challenges

- Total returns under examination at end of year 527,353 (100,000 less than prior year)
- Total closed examinations 659,000 (Up from 452,000)
- Average time for exam to close is 385 days for incomes between \$50,000 and \$10,000,000 of income
 - Rate of taxpayers not responding to exams 22.7%!
 - Rate of non change reports 11.6%
- Chance of being audited generally are less than 1%, but....
- Line by line audits are coming back (Used for IRS audit guidelines)



Audit Triggers

IRS Audit Trigger's

- Typographical errors and calculation errors
- Inconsistent reporting of tax information
 - The return as filed does not coincide with information on IRS systems (usually 1099's)
- Level of Income
 - Taxpayer's with AGI under \$200,000 – 1% audit chance
 - Taxpayer's with AGI over \$1,000,000 – 4.6% audit chance
 - Taxpayer's with AGI over \$10,000,000 – 18.79% audit chance



Audit Triggers

IRS Audit Trigger's

- Businesses filing Schedule C
 - Schedules with less than \$25,000 in receipts have a .9% audit rate
 - Schedules with more than \$200,000 in receipts have an audit rate of 2.2%
- Auto Expenses
 - Accounting for personal use or deducting 100% of the cost



Audit Triggers

IRS Audit Trigger's (con't)

- Home office deduction
- Travel and meals expense
- Foreign bank and securities accounts
- Cryptocurrency transactions
- Hobby losses (Claiming losses every year)
- Utilization of business tax credits
- Large changes in income or expenses from prior year



Audit Triggers

IRS Audit Trigger's (con't)

- Adjustments for multiple deductions or credits.
- Earned income tax credit (Fraud)
- Certain types of businesses:
 - Horse farms
 - Cash businesses
 - Real estate
- Excessive deductions as determined by IRS comparison software
 - Documentation best defense

Audit Triggers

IRS Audit Trigger's (con't)

- Large charitable contributions (noncash contributions)
- Divorce
 - Deducting/reporting alimony
 - Dependents
- Cash payments over \$10,000
- Amended returns or claims for refund

Audit Triggers

IRS Audit Trigger's (con't)

- Incorrectly reporting the health premium credit
- Early distributions from IRA/401(k)
- Gambling winnings
- IRS listed transactions (abusive tax shelters)
 - Conservation/façade easement
 - Capital insurance arrangements etc.

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Poll #3

WHAT TO WATCH FOR IN 2022



2022 Tax Brackets

2022 Tax Rate	For Single Filers	For Married Individuals Filing Joint Returns	For Heads of Households
10%	\$0 to \$10,275	\$0 to \$20,550	\$0 to \$14,650
12%	\$10,275 to \$41,775	\$20,550 to \$83,550	\$14,650 to \$55,900
22%	\$41,775 to \$89,075	\$83,550 to \$178,150	\$55,900 to \$89,050
24%	\$89,075 to \$170,050	\$178,150 to \$340,100	\$89,050 to \$170,050
32%	\$170,050 to \$215,950	\$340,100 to \$431,900	\$170,050 to \$215,950
35%	\$215,950 to \$539,900	\$431,900 to \$647,850	\$215,950 to \$539,900
37%	\$539,900 or more	\$647,850 or more	\$539,900 or more

2022 Capital Gains Tax Bracket

	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
0%	\$0	\$0	\$0
15%	\$41,675	\$83,350	\$55,800
20%	\$459,750	\$517,200	\$488,500

2022 Standard Deduction

Filing Status	Deduction Amount
Single	\$12,950
Married Filing Jointly	\$25,900
Head of Household	\$19,400

2022 Alternative Minimum Tax (AMT) Exemptions

Filing Status	Exemption Amount
Unmarried Individuals	\$75,900
Married Filing Jointly	\$118,100

Charitable Contributions Deductions for 2022

Non-itemizing taxpayer

Above the line deduction of up to \$300 (\$600 for married filers) was *not* extended to 2022.

Itemizing taxpayer:

Deduction limitation for Qualified Charitable Contributions was 100% AGI for 2020 and 2021 under CARES act.

- Limitation will be 60% for 2022 - 2025.

Qualified Charitable Contributions must be :

1. In the form of cash
2. Made to public charities (excludes donor advised funds and private foundations)

Depreciation

Section 179

Code Section 179 limits:

- **2021** - \$1,050,000 million with a \$2,620,000 million overall investment limit before phase out
- **2022** - \$1,080,000 million with a \$2,700,000 million overall investment limit before phase out

Bonus Depreciation

Additional first-year bonus depreciation for property acquired and placed in service during:

- **2021:** 100%
- **2022:** 100%
- TCJA expanded this benefit to used property

199A - Qualified Business Income

- 20% deduction on Qualified Business Income
- Limitation greater of :
 - 50% of the W-2 wages or
 - Sum of 25% of the W-2 wages plus 2.5% of unadjusted basis of qualified property
- 2022 Threshold amounts above which the specified service businesses and the wage limit apply:
 - \$340,100 of Taxable Income - MFJ
 - \$170,050 of Taxable Income – Single and MFS
- Deduction is completely phase out once the taxable Income exceeds:
 - \$440,100 – MFJ
 - \$220,050 – Single and MFS

Excess Business Losses

- Under the CARES Act, the excess business loss limitation was suspended for 2018 – 2020.
- Excess business losses arising after 12/31/2020 and before 1/1/2026 are limited:

	Unmarried	Married
2021	\$262,000	\$524,000
2022	\$270,000	\$540,000

- Excess amounts disallowed will be carried forward as a net operating loss.
- Basis limitation, at risk limitations, passive loss rules all still apply.

Net Operating Losses

- The Tax Cuts and Jobs Act of 2017 changed the rules for deducting net operating losses (NOL's).
- Previously, NOL's could be carried back 2 years and forward 20 years.
- TCJA:
 - Limited the NOL deduction to 80% of taxable income
 - Disallowed NOL carrybacks
 - Removed the 20 year limit on NOL carryovers
- In 2020, the CARES act temporarily suspended the TCJA NOL limitations for losses occurring in tax years after 12/31/2017 and before 1/1/2021.
- For 2021 and forward, net operating losses will once again be limited under the TCJA rules.

Limitation on Business Interest – 163(j)

CARES Act	2021 & Beyond
<p>For taxable year beginning in 2019 or 2020:</p> <p>Business interest expense limitation was limited to sum of :</p> <ul style="list-style-type: none">• Interest income• 50 % of your Adjusted taxable income (ATI)• Floor plan financing interest <p>In addition, taxpayer can elect to use their 2019 ATI to calculate the 2020 limitation.</p>	<p>Effective for taxpayer 2021:</p> <p>Business interest expense is limited to sum of :</p> <ul style="list-style-type: none">• Interest income• 30% of your Adjusted taxable income (ATI)• Floor plan financing interest <p>ATI: Taxable income + Interest Expense + Depreciation Expense + Amortization Expense</p> <p>* 2022 - Depreciation, amortization no longer an add back</p>

2021-2022 Annual Limits

Payroll Taxes	2021	2022
FICA		
Social Security (OASDI) wage base	\$142,800	\$147,000
Social Security (OASDI) % - employer + employee	6.2%	6.2%
Medicare		
Medicare (HI) % Employer	1.45%	1.45%
Medicare (HI) % Employee		
For first \$200,000 (single) - \$250,000 (married) off wages	1.45%	1.45%
All remaining wages in excess of limits above	2.35%	2.35%

2021-2022 Annual Limits

Retirement Contributions	2021	2022
Max. elective deferral to 401(k) and 403(b)	\$19,500	\$20,500
Max. elective deferral to SIMPLE IRA Plan	\$13,500	\$14,000
Max. contribution limit to IRA	\$6,000	\$6,000
Max. contribution limit to FSA	\$2,750	\$2,850
Max. contribution to defined contribution plans	\$58,000	\$61,000
Max. compensation amount – SEP's	\$290,000	\$305,000
Catch-up Contribution limits	2021	2022
401(k) plan	\$6,500	\$6,500
SIMPLE Plan	\$3,000	\$3,000
IRA account	\$1,000	\$1,000

2021-2022 Annual Limits

Estate Tax	2021	2022
Top Federal Tax Rate	40%	40%
Federal Exemption	\$11.7 million	\$12.06 million
Portability Available	Yes	Yes
NJ Exemption	N/A	N/A
NY Exemption	\$5,930,000	\$6,110,000

Top Tax Rate	40%	40%
Federal Exemption	\$11.7 million	\$12.06 million
Unified Estate + Gift Tax Exemption	Yes	Yes
Annual Gift Tax Exemption	\$15,000	\$16,000

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QUESTIONS?

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THANK YOU!

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