



Certified Public Accountants
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NEW ADDRESS!

December 8, 2021

Dear Client,

We hope this letter finds you well. We are very excited for you to come to our **NEW OFFICE** this year if you haven't already visited us! The best part is we only have one small step to get into our front door. **Our new address is 17 South Evergreen, Chanute.** We are just to the south of the old Playmakers restaurant that experienced a fire this summer. Another way to describe our location is one block east of our old location. **For mailings, use PO Box 537; Chanute, KS 66720.**

It is a great privilege to be your tax advisors, please know that we appreciate you greatly. As always, if you have questions about any of the following matters, please call us at 620-431-7000.

Please note the enclosed double-sided yellow form titled "Questions for Tax Savings - 2021". *We request that you look over this form and complete it. **Be sure to include this yellow form with your other tax information.*** By reviewing this, you will help ensure that you take full advantage of the tax breaks available to you as a taxpayer. As you are filling it out, please check the box *only if your answer to the question is "Yes"*.

Our weekday holiday office closings and office hours are as follows....

December 24	OFFICE CLOSED	<i>MERRY CHRISTMAS!!</i>
December 31	OFFICE CLOSED	<i>HAPPY NEW YEAR!!</i>
April 18 through May 1	OFFICE CLOSED	

Our office hours from **January 4 through April 15** will be from 8:00 am to 6:00 pm on Monday through Thursday, 8:00 am to 5:00 pm on Friday, and Saturday from 8:00 am to noon.

From **May through November** our office is open Monday through Thursday from 8:00 am to 4:30 pm. **We are closed on Fridays from May through November.**

Our website address is www.houshcpa.com and our email addresses are as follows:

Wade Housh: wade@houshcpa.com
 Megan Housh: megan@houshcpa.com
 Tara Bilby: tara@houshcpa.com

We wish you a very ***MERRY CHRISTMAS*** and a healthy, prosperous and ***HAPPY NEW YEAR!***

Sincerely,

MAJOR KANSAS TAX LAW CHANGE!

In the past, you were allowed to itemize your deductions on your Kansas income tax return **ONLY** if you itemized your deductions on your Federal income tax return. For 2021, this is now different. Itemized deductions generally include your medical expenses (limited), property taxes, mortgage interest, charitable contributions, and personal property taxes. If your allowed Kansas itemized deductions exceed \$3,500 for single filers, \$6,000 for head of household filers or \$8,000 for married filing jointly filers, you can now itemize your deductions on your Kansas income tax return **EVEN IF YOU DON'T ITEMIZE ON YOUR FEDERAL RETURN!**

This could mean that you need to provide information to us even though you may have gotten out of the habit of doing so. Here is what we need:

1. Medical expenses including (please provide a breakdown) prescriptions, doctors, hospitals, insurance, long-term care, out-of-pocket medical travel expenses (lodging, mileage, etc), nursing home costs, and other qualified medical expenses.
2. Special sales tax items for new vehicles, boats, etc
3. Real estate taxes paid
4. Personal property taxes paid
5. Mortgage interest
6. Mortgage insurance premiums
7. Charitable contributions to a 501(c)(3) organization
8. Non-cash charitable contributions to a 501(c)(3) organization

MAJOR FEDERAL TAX LAW CHANGE!

The Child Tax Credit and the Additional Child Tax Credit have been significantly changed for the 2021 tax year. Many of you have received Advanced Child Tax Credit payments starting in July 2021 and each month thereafter. Some of you have opted out of receiving those payments in advance. Our challenge will be to reconcile all of this on your 2021 tax return.

We will need some information to reconcile the child tax credits on your return. There will be instances and situations where this will affect your refund when your return is completed compared to earlier years. Some will possibly see a larger refund while some will see a smaller refund. It all depends on several factors including income, other deductions you have for 2021, and the age of your child(ren).

The credit is now \$3,000 per child for children six years of age through age 17. The credit is \$3,600 per child for children under the age of six. However, if you received the advance credits, your credit on the tax return will be reduced by what you already received.

Also, the Child Tax Credit is fully refundable for 2021 while it was limited in prior years. The above changes are only for 2021 unless Congress extends it.

The child and dependent care credit has been changed as well for 2021. It is now fully refundable.

TAX STRATEGIES

Overview

The following ideas and strategies are not a “one-size-fits-all” solution. Each idea may or may not work in your particular situation. We encourage you to speak with us if you have any questions. Tax planning does include taking into consideration a potential change in tax laws. According to the Tax Foundation, rates for most of our clients are at historical lows. Hypothetically, if tax rates were to increase, it MAY be better to pay tax at the current lower rates and save capital purchases for a year when tax rates are higher. Alternatively, IF you think tax rates will be reduced again, it may be better to do the opposite: make capital purchases now and pay tax at lower rates in the future.

Personal Income Tax Ideas & Strategies

- The third economic recovery rebate initially began in March of 2021. This will be reconciled on your 2021 return so you may qualify for any amounts that were reduced because of your base year return. If your income increased, we do not believe you will have to pay back any amounts received.
- Use **529 accounts** to save money back for future private school and college expenses. Currently, you receive a tax deduction on your Kansas return for contributions (limited) and the earnings grow tax free as long as the funds are used for qualified expenses.
- **Health Savings Accounts** offer a way to get tax deductions for your out-of-pocket medical expenses. Your health plan must meet certain requirements to be eligible for this type of account. This is an even better option than itemizing your medical deductions since you do not have to reduce your expenses by a certain percentage of income.
- **IRA Required Minimum Distributions** – For 2021, you once again are required to take your Required Minimum Distribution. Once you reach 72 (if you turn 70 ½ in 2020 or later) you are required to withdraw a certain amount of your traditional IRA each year. One strategy to consider that could affect your taxable income **AND** the amount of your social security that may be taxable is to give your required distributions to charity. In other words, if you tithe to your church or donate to a qualified organization anyway (especially if you don’t itemize your deductions) then you can reduce your taxable income. This is a strategy that can be customized to your situation so let us know if this may be something that could help you. You could possibly use the higher standard deduction and lower tax brackets to take more out of an IRA than required. Be careful to consider the effect on taxable social security benefits. Contact us for ideas.
- **IRA’s – TRADITIONAL:** A traditional “Individual Retirement Account” offers tax-deductible contributions to qualifying individuals. Earnings on account investments accumulate tax deferred. You will pay taxes on earnings and previously deducted contributions in the year of withdrawal. Generally, you must wait until age 59 ½ to withdraw money without a 10% penalty. This type of IRA can be paid on or before April 18, 2022 and still be deducted on your 2021 tax return. You may need to contact your IRA administrator well in advance of the deadline to make sure your contribution is processed timely. With the new tax law starting in 2020, you may continue to contribute to a Traditional IRA beyond age 70 ½ if you have earned income.
- **ROTH Conversions** may pay off in the long run (especially if your tax rates go up and/or you accumulate earnings after conversion). By converting a traditional IRA to a ROTH IRA, you pay tax (at your regular tax bracket rates) now. However, any post-conversion earnings will grow tax free until the funds are distributed. Also, with ROTH IRA’s there are no current requirements to withdraw the funds at a certain age. This can be a significant benefit to your beneficiaries in that they can inherit an asset on which they do not have to pay tax.

TAX STRATEGIES (continued)

- **IRA's – ROTH:** Investing in a ROTH IRA allows you to make a *NONDEDUCTIBLE* annual contribution of the lesser of \$6,000 (reduced by contributions to all other IRA's for the year) or your earned income for the year. You may not contribute to a Roth IRA if your Adjusted Gross Income exceeds certain limits. You don't pay taxes or face the 10% early withdrawal penalty on "qualified distributions" which are made 1) On or after you reach age 59 ½, 2) For medical insurance premiums (with limits) to certain unemployed individuals, 3) For qualified higher education expenses, 4) For first-time home-buyer expenses (up to \$10,000), 5) As a result of you becoming disabled, **OR** 6) To your estate or beneficiary after your death.
- **Donate appreciated assets** (including stocks) to a church or charitable organization. This can result in paying ZERO tax on the gain AND you can deduct the fair market value (instead of the cost) as an itemized deduction. An example would be donating a stock that has appreciated rather than selling the stock and then donating the proceeds. This could save tax while still getting a deduction for the contribution.
- Take advantage of the annual gift tax exclusion of \$15,000 to each person without any filing requirements or dipping into your lifetime estate and gift tax exemption. Your spouse could also give \$15,000 to the same person without any issues.
- Think about contributing any year-end bonus pay to your 401(k).
- Use Flexible Spending Accounts through your employer to get pre-tax deductions for medical bills.
- Plan on taking advantage of the zero or 15% capital gains tax rates in certain situations. If your income falls in certain tax brackets, you may pay ZERO federal tax on long-term capital gains (limitations apply). Planning for this with recent stock market gains may be a tax winner for you.

Business Income Tax Ideas & Strategies

- Did you apply for forgiveness of your Payroll Protection Program loans? Be sure to contact your lender, if you have not already, to make sure you don't have to repay the funds. The amounts forgiven are NOT TAXABLE, and you can still deduct the expenses for which you used the funds.
- Did you pay for time off for employees because of COVID-19? If so, let us know. It may be necessary to amend your payroll reports to obtain a credit related to the paid time off. The credit is quite complex so we would need to evaluate it for your particular situation.
- **Pay your children** – A business owner or farmer (operating as a sole proprietor) may be able to improve the family's tax situation by hiring their children and issuing the appropriate payroll tax forms and filings. In 2021, a dependent child of any age can earn up to \$12,550 of wages tax-free (federal) because of the standard deduction. You'll be able to deduct the wages as a business expense, and your child will pay federal tax *ONLY* on their income that exceeds the \$12,550 standard deduction. No Social Security or Medicare tax applies to a child ***under the age of 18*** for wages paid by a parent (who is operating as a sole proprietor). A W-2 form would need to be issued and you would need to file the appropriate payroll forms.

TAX STRATEGIES (continued)

- **Utilize SEP or SIMPLE IRA retirement plans** – To defer income and income tax, you may be able to utilize a business retirement plan that is tailored for small businesses. Your business can establish a SEP or SIMPLE IRA, each of which has different advantages. In addition, outside of your business you still may be able to take advantage of a Traditional IRA or ROTH IRA depending on your total income. Therefore, it is possible to contribute to two different retirement plans in the same year.
- Take advantage of bonus depreciation and expanded 179 depreciation if you've had a good year and want your tax to be lower. Some strategy exists related to which class of assets you use bonus depreciation for, especially for farmers. Using bonus depreciation for longer class lives for farmers and using traditional depreciation for equipment may be an option.
- **100% deductible medical insurance and medical expenses** – If you are self-employed, a partner in a partnership, a member of a LLC, or a stockholder in a C corporation, you may be able to save tax dollars by setting up an “employee benefit plan” (“BASE 105”). This plan allows you to deduct (as a business expense) 100% of your qualifying health insurance and “out of pocket” medical expenses. Due to changing regulations, be sure to contact us if you are interested in this type of plan. If you already utilize BASE 105, we will send you a letter to assist you in preparing year-end reports.
- If you use your home for business related activities, you may be able to “rent” your home to your business for 14 days or fewer which would give your business a deduction (and not have to pick up the income on your personal return). Be sure to follow all the steps necessary AND have a legitimate business reason for renting the property.
- Don't forget mileage reimbursements to yourself or your spouse. Keep detailed mileage logs as required by the IRS and write mileage reimbursements checks from the business for personal vehicle usage for business.
- Timing of income and expenses may be important if you are a cash-basis taxpayer. Depending on how close you are to a tax bracket change, it may be advantageous to pay expenses by December 31st (with exceptions) to reduce taxable income. There are other methods and strategies along these same lines that could help as well.
- Office parties and outings held for the benefit of its employees (other than certain owners) are fully deductible. Business meals are 100% deductible (if bought through a restaurant). Be sure to keep track of each separately. Also, entertainment expenses are no longer deductible.

IMPORTANT NOTES AND RECOMMENDATIONS

If you want to discuss any of these issues, be sure to check the last box on the “Questions for Tax Savings – 2021” and include the appropriate part of this letter with your other tax information.

1099’s – Information Returns

If you or your corporation, LLC or partnership have paid \$600 or more (*in the course of a trade or business*) in the calendar year of 2021 to an individual, partnership or LLC for rent, machine hire, commissions, interest or contract labor, you are required to file a 1099 with the IRS. It is not necessary to file a 1099 when the recipient is a corporation (a bank, for example). **The due dates for these to be filed with the IRS is now January 31st.**

VERY IMPORTANT: How is “contract labor” defined? The Kansas Division of Human Resources (KDHR) and the IRS are very strict in their definition of “contract labor”. In most cases, they treat the payee as an EMPLOYEE which may cause severe penalties to be assessed. If you are in doubt about the proper classification of someone you are paying, it is very important that you discuss this with us.

If we prepared your 1099’s last year, we will send you worksheets at the end of December to assist you in assembling the necessary information for this year’s 1099’s. If we didn’t prepare your 1099’s last year, please contact us for information we may need to complete these forms for you.

Hobby Losses

If you are engaged in an activity that has a net loss, the IRS may disallow the loss under the “hobby loss” rules. If the IRS determines that the activity is not conducted as a “for profit” business, deductions may be limited.

Delinquent Payroll Taxes

If you are involved in a business (either as an owner or other capacity where you have *ANY* control over the payment of payroll taxes), it is important that *ALL* payroll taxes are paid on a current basis. The IRS can shut down a business over nonpayment of payroll taxes. Furthermore, there can be severe penalties and interest added to the balance due *AND* the IRS can attempt to obtain payment directly from the owner (or officer/principal) *or* the person in charge of payroll. If you are delinquent in filing payroll reports or in the payment of payroll taxes, it is very important that you take the necessary steps to become current.

Delinquent Income Tax Returns

If you are not current in filing your income tax returns, it is very important to see that you become current immediately. The penalties and interest and possible civil and criminal offenses are quite severe. If you are due a refund, the return must be filed and **RECEIVED** by the IRS within 3 years of the original due date.

Estate Planning

Anyone who owns property – a home, a car, a bank account, a retirement account, etc. – needs an estate plan. Without an estate plan, state law will dictate how your assets are distributed after your death. Perhaps you need only a Will. However, there are certainly situations where a trust, for example, can save significant tax dollars (the federal estate tax rate can reach 40%). Gifting can also help reduce estate taxes. There are several tools available to help minimize the burden of these so called “death taxes”. If you (or your parents or other family members) have not done some recent estate planning, and you would like to discuss this, please give us a call. Currently, Kansas does not impose an Estate Tax.

IMPORTANT NOTES AND RECOMMENDATIONS (continued)

Record Retention

We suggest that you retain copies of all of your income tax returns indefinitely. All supporting data, source documents, cancelled checks or other information related to the tax return preparation should be retained for at least seven years. These documents may be necessary to prove the accuracy and completeness of your returns to a taxing authority. Additionally, you should retain all records concerning asset purchases; e.g., real estate, stocks, bonds, and other business and investment property until such property is disposed of plus seven years after the disposition. Gift and estate tax returns should be kept indefinitely.

REMINDERS

- ***BACK UP YOUR DOCUMENTS, FILES, AND QUICKBOOKS FILES!!!!***
- Use last year's "***SOURCE DOCUMENTS***" as a guide or checklist for the documents and information needed to complete your tax return. Last year's "Source Documents" has a bright ***orange*** cover sheet.
- ***THE IRS GENERALLY WILL NOT CALL YOU AND THE IRS DOES NOT USE EMAIL!***
- If you are ***SELF-EMPLOYED***, be sure to write a check to your spouse (on or before December 31) to reimburse for business or farm auto mileage (for business miles driven in a *personal* vehicle for which actual expenses are *not* being deducted for this vehicle). **MILEAGE LOGS ARE IMPORTANT TO KEEP!**
- If you are enrolled in ***BASE 105***, to be able to deduct eligible medical expenses, you must have paid wages to your spouse on or before December 31. Furthermore, be sure that you have properly **documented** the hours worked and duties performed by your spouse to ensure the deductions under this plan would qualify.
- ***CHARITABLE CONTRIBUTIONS:*** All deductions of any amount must have a receipt received before you file your return. Any individual contribution of \$250 or more must have a letter from the charity showing the date and amount and must state that no goods or services were received in return for the contribution.
- If you have foreign assets or signature authority over a foreign bank account you may be required to file FinCen114. Please make us aware of any foreign assets you may have.
- If you pay ***ESTIMATED TAXES***, your final estimate for this tax year is due January 15.
- ***IF YOUR TAX INFORMATION IS RECEIVED LATE***, we will certainly make every effort to complete the tax returns by the April 15 deadline; however, if your information is received by us **after March 30, it may be necessary to file an extension.**
- Please review your "Statement of Earnings" at www.socialsecurity.gov/mystatement. It is important that you review this to ensure your earnings are correct and that your account is credited with the appropriate credits. With the new tax law changes, it may be necessary to use the "optional method" of paying social security taxes.

Federal Standard Deduction for 2021

<i>Filing Status</i>	<i>Under age 65</i>	<i>Age 65 or over</i>
Single	\$12,550	\$14,250
Married Filing Joint	\$25,100	\$27,800 *
Head of Household	\$18,800	\$20,500

****Both*** are age 65 or over

2021 & 2022 SOCIAL SECURITY INFORMATION

Maximum Social Security Taxable Wages

2021	2022
\$142,800	\$147,000

Maximum Earnings before Social Security Retirement Benefits Reduced

Age	2021	2022
Under Full Retirement Age	\$18,960	\$19,560
Year Full Retirement Age Met	\$4,210 per month	\$4,330 per month
Full Retirement Age	No Limit	No Limit

Taxable Social Security Benefits for 2021

<i>Filing Status</i>	<i>Provisional Income**</i>	<i>Up to this percentage of your benefits will be taxed</i>
Single or Head of Household	Less than \$25,000	0%
	Between \$25,000 and \$34,000	50%
	Over \$34,000	85%
Married Filing Joint	Less than \$32,000	0%
	Between \$32,000 and \$44,000	50%
	Over \$44,000	85%
Married Filing Separate	Over \$0	85%

** Provisional Income is generally defined as adjusted gross income plus tax-free interest and dividend income, plus 50% of Social Security benefits received.

Privacy Policy Disclosure Notice

In accordance with the final rules published by the Federal Trade Commission on November 13, 2000, the following disclosures are made as the Privacy Policy of Housh & Housh CPA's, LLC: It is the policy of Housh & Housh CPA's, LLC to handle the information our clients and customers provide to us with the utmost confidentiality and care. Certified Public Accountants, like all providers of personal financial services, are now required by law to inform their clients of their policies regarding privacy of client information. CPAs have been and continue to be bound by professional standards of confidentiality that are even more stringent than those required by law. Therefore, we have always protected your right to privacy.

Types of Nonpublic Personal Information We Collect:

We collect nonpublic personal information about you that is provided to us by you or obtained by us with your authorization.

Parties to Whom We Disclose Information:

For current and former clients, we do not disclose any nonpublic personal information obtained in the course of our practice except as required or permitted by law. Permitted disclosures include providing information to our employees, and in limited situations, to unrelated third parties who need to know that information to assist us in providing services to you. In all such situations, we stress the confidential nature of information being shared. Under Kansas law, if you provide us with information which you identify as confidential pursuant to a professional engagement with us, we are not permitted to disclose that information without your consent, except in response to a court proceeding, to the Kansas State Board of Accountancy, or in the course of peer review of our firm.

Protecting the Confidentiality and Security of Current and Former Client's Information:

We retain records relating to professional services that we provide so that we are better able to assist you with your professional needs and, in some cases, to comply with professional guidelines. In order to guard your nonpublic personal information, we maintain physical, electronic, and procedural safeguards that comply with our professional standards.