

Business 2021 Tax Season Tax Letter

Tax planning tools for businesses

Don't let tax considerations get in the way of sound business decisions. For example, the negative impact of these strategies on your cash flow might not be worth the potential tax benefit.

Business structure: There are different options in the type of entity that your business might operate as. Sole proprietorship, C Corporation, S Corporation, partnership, LLC. Please call me to discuss what form of entity might be best for you.

S Corporation: Electing to be taxed as an S Corporation can potentially save you on paying social security and Medicare taxes.

Accelerating Deductions into 2021: If you expect your taxable income and or tax bracket to be lower in 2022 as compared to 2020, you might consider accelerating deductions to 2021

Deferring Income into 2022: If you expect your taxable income and or tax bracket to be lower in 2022 as compared to 2021, you might consider deferring income to 2022.

Disabled / handicap improvements: ADA compliant improvements can qualify for special tax treatment including a credit. Please let me know if you had any ADA compliant improvements in the current tax year.

Employment of family members: Your spouse and children can only be paid if they work in your business. They can be paid the on-going rate for a similar employee. They can also participate in your pension plan.

2% S Corporation health insurance premiums: Health and accident insurance premiums paid on behalf of a greater than 2-percent S corporation shareholder-employee are deductible by the S corporation and (required to be) reportable as wages on the shareholder-employee's Form W-2, subject to income tax withholding. *It's important that you are in compliance with the (ACA) rules. If you have any questions, please reach to us or your payroll company, health insurance agent or attorney to ensure that you are.*

Home office: Call me to discuss requirements for a home office deduction.

Foreign Bank Account: If you have an interest in a foreign bank account, it must be disclosed; failure to do so carries stiff penalties. You must file a Report of Foreign Bank and Financial Accounts (FBAR) if: (1) you are a U.S. resident or a person doing business in the United States; (2) you had one or more aggregated financial accounts exceeding \$10,000 during the calendar year; (3) the financial account was in a foreign country; and (4) you had a financial interest in the account or signatory or other authority over the foreign financial account. If you are unclear about the requirements or think they could possibly apply to you, please reach out to me.

Deadline for filing the FBAR is due April 15. However, a six-month automatic extension is available. If an individual is living (abroad) out of the country, the due date is automatically extended until June 15, with an additional four-month extension available until October 15.

Filing Deadlines for Forms W-2, W-3, and Form 1099-MISC: The filing deadline for 2021 forms W-2 to employees and to the Social Security Administration (SSA) is January 31, 2022. The January 31 deadline also applies to Forms W-2AS, W-2GU, W-2VI, W-3 and W-3SS.

If you are filing any Forms 1099-MISC / NEC and reporting an amount in Box 7, Non-employee Compensation, the deadline for filing these forms is also January 31, 2022.

Penalties for Failure to Timely File Certain Information Returns: Penalties apply for (1) the failure to file correct Forms W-2 by the due date; (2) the intentional disregard of filing requirements; (3) the failure to furnish Forms W-2; and (4) the intentional disregard of payee statement requirements. In addition to applying to Forms W-2, W-3, and 1099-MISC, other common forms subject to these increased penalties include: Schedules K-1 for Forms 1041, 1065, and 1120S.

Section 179 Expense Deduction and Bonus Depreciation: Code Sec. 179 expense deduction and bonus depreciation are two large potential deductions for small to medium size businesses. For 2021, the maximum amount of qualifying property that your business can expense under section 179 is \$1,050,000. That amount is reduced one-for-one to the extent qualifying property purchased exceeds \$2,620,000.

Bonus depreciation deduction is now 100% and now also includes the purchase of used property.

Increase in De Minimis Repair Amounts That May Be Expensed: Under a safe harbor rule in the recent repair and capitalization rules that took effect in 2014, certain amounts that a business pays for tangible property acquired or produced during the tax year may be deducted, rather than capitalized, provided certain requirements are met

and the cost of the property does not exceed a de minimis amount. Effective for 2017, the IRS de minimis amount that is deductible by such businesses is \$2,500.

The \$2,500 threshold requires substantiation by an invoice for the underlying qualifying purchase(s). If your business does want to take advantage of the increase in the de minimis limitation, an election must be made, and the business's accounting procedures may need to be modified. Your business should have a current written accounting policy supporting / defining the de minimis \$2,500 threshold. We can assist in creating the appropriate de minimis accounting policy for your company.

Section 199A deduction: In general, pass through entities, for the tax year effective 2018, including 2021 for a qualified trade or business might be eligible for a 20% deduction of their calculated qualified business income. Section 199A is complex and has many exceptions and limitations. Therefore, each business has to be analyzed based on facts and circumstances.

Vehicle Deductions: Purchasing your vehicle in your business and tax deductions for vehicle business related expenses should be looked at by all businesses. The IRS has strict substantiation requirements necessary for business vehicle deductions. You need to ensure that your business records include the following information with respect to each vehicle used in your business: (1) the amount and date of each separate expense with respect to the vehicle (Cost of purchase or lease and repairs and maintenance); (2) the mileage for each business or investment use / trip and the total miles for each tax period; and (3) the business purpose for each trip / expenditure. The following records can be used to assist in substantiating your business vehicle expenses: (1) records such as a diary, log, statement of expense, or trip sheets; and (2) support such as receipts, cancelled checks, bills, or similar evidence.

There are phone apps that are available to assist a business in tracking / documenting vehicle expenses. Business vehicle mileage and expenses are required to be kept / recorded on a timely basis (near the time of the trip or expense).

Have your company reimbursement yourself for all business expenses that you paid personally by using cash or personal credit cards by 12/31/21. This also includes potential reimbursements for any business vehicle expenses that you personally paid out of pocket for.

Other business tax considerations

Tax Return and Extension Due Dates for C Corporations and Partnerships: In general, C corporations with tax years ending in 2021 returns are due by the 15th day of the fourth month following the close of the tax year. A special rule exempts C corporation with fiscal years ending on June 30 from this change until tax years

beginning after December 31, 2025. Thus, the filing deadline for such corporations remains September 15 until 2026.

Partnerships with tax years ending in 2021 are required to file their federal income tax returns by the 15th day of the third month following the close of the tax year, The filing deadline for S corporation returns is also March 15, 2022. Partnerships and S corporations have the same tax return due dates.

S Corporation Salaries: For all S corporations, it's important for all shareholders working in your business to be paid an amount that is commensurate with their workload. Distributing profits, in the form of distributions, in lieu of paying wages subject to employment taxes, is a high target item with the IRS. Failing to be in compliance with this requirement can lead to tax deficiencies, penalties and interest.

Review of partnership agreements, stockholder buy sell agreements, Trust agreements, Corporate minutes: You should be reviewing your applicable legal agreements on an annual basis and touching base with your attorney to make sure that such agreements are current and up to date. Including your annual corporate minutes.

Review of all of your insurance coverage / policies: Is your liability and property insurance coverage proper and current? Does it cover employees that might get in an automobile accident while driving for your business / office tasks? Reach out and review with your insurance agent / company annually.

Secretary of State annual filing: For information please visit: <http://www.sos.ca.gov/business-programs/business-entities/statements>

If Incorporated in California. Do not forget to file the appropriate Secretary of State return and pay the underlying \$25 fee. There is a \$250 late filing penalty with the risk of the suspension of your Corporation for non-compliance. California LLC's have a similar reporting and fee requirement. If you are incorporated in another state than California, please review their requirements.

Planning for Revised Partnership Audit Procedures: Effective for partnership tax years beginning January 1, 2017, the current partnership audit procedures was replaced with a single centralized audit system. While some small business partnerships may elect out of the new regime, most partnerships will be subject to the new rules. Under the new audit system, the IRS will examine a partnership's items of income, gain, loss, deduction, credit and partners' distributive shares for a particular tax year of the partnership (i.e., the audit year). Any adjustments are now to be taken into account by the partnership, and not the individual partners, in the year that the audit or any judicial review is completed. Thus, it's possible for current year partners to be liable for mistakes or errors committed in prior years when they were not partners. These new rules provide certain exceptions that can allow current year partners to escape such liability, including

Robert A. Cowen, C.P.A.
1010 Turquoise Street, Suite 201 San Diego, CA 92109
(858) 488-0525 FAX (858) 488-0528
robert@cowencpa.com

an election that must be made no later than 45 days after the date of a notice of final partnership adjustment. We recommend that your partnership agreements should be reviewed and revised to take into account the new audit rules, and that is best done sooner rather than later.

If you have any questions, please feel free to reach out to our office.

2022 is going to be a great year!

Robert A. Cowen, CPA

1010 Turquoise Street,
Suite 201
San Diego, CA 92109

858-488-0525 office
858-488-0528 fax

robert@cowencpa.com
<http://www.cowencpa.com>

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The greatest compliment that my clients can give is the referral of their family, friends, and colleagues.
Thank you for your trust!

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