BENDER, CICCOTTO & CO.
Certified Public Accountants, LLP

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CLIENT UPDATE

WINTER 2020

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Common tax surprises

No one likes tax surprises, but they do occasionally happen. Here are some examples of unpleasant tax situations you could find yourself in and what to do about them.

An expected refund turns into a tax payment.

Nothing may be more deflating than expecting to get a nice tax refund and instead be met with the reality that you actually owe the IRS more money.

What you can do: *Consult with your company's human resources department to see if you should adjust how much federal income tax is withheld from your paycheck. If you're self-employed, examine if you need to increase your estimated payments due in January, April, June and September.*

Getting a letter from the IRS.

Official tax forms such as W-2s and 1099s are mailed to both you and the IRS, and if you don't include income from one of these forms on your tax return, IRS computers will catch the error. The IRS will then send you a letter demanding payment for the taxes you owe on the amount of income you omitted.

What you can do: *Assuming you already know you received all your 1099s and W-2s and confirmed their accuracy, verify the information in the IRS letter with your records. Believe it or not, the IRS sometimes makes mistakes!*

Getting a tax bill for an emergency retirement distribution.

You can withdraw money from retirement accounts in 2020 without getting a 10% penalty, but you'll still have to pay income taxes on the amount withdrawn.

What you can do: *Make sure you set aside a percentage of the withdrawal for taxes. You may be required to have a certain amount of the distribution withheld by your brokerage firm and directly remitted to the IRS, but the amount withheld may not cover your entire tax liability.* ♦

2021 RETIREMENT BY THE NUMBERS

AVERAGE SOCIAL SECURITY BENEFITS

2020 | 2021

RETIREMENT CONTRIBUTION LIMITS

	2020	2021
401k	$19,500	$19,500
IRA	$6,000	$6,000
SIMPLE	$13,500	$13,500
SEP	$57,000	$58,000

Thank you

We appreciate your business and continued support as we all navigated a difficult 2020.

Wishing you a happy holiday season and a prosperous 2021

IRS Update

IRS warns of new COVID-related text scam

The IRS is warning of a new text scam created by thieves that trick people into disclosing bank account information under the guise of receiving the $1,200 Economic Impact Payment. The IRS reminds taxpayers that neither the IRS nor state agencies will ever text taxpayers asking for bank account information.

Natural disaster tax relief available for individuals and businesses

Victims of Hurricane Sally now have until January 15, 2021 to file various individual and business tax returns and make payments. The IRS automatically provides filing and penalty relief to any taxpayer with an IRS address located in a federally declared disaster area.

Individuals and businesses who suffered uninsured or unreimbursed disaster-related losses can choose to claim them on either their 2020 or 2019 tax return.

No change to fourth quarter interest rates

Interest rates for the fourth quarter in 2020 will remain the same compared to last quarter. These rates include: 3% for overpayments (2% for corporations); 0.5% for the portion of a corporate overpayment over $10,000; 3% for underpayments and 5% for large corporation underpayments. ♦

Tax Calendar

January 15, 2021

- ☐ Due date for the fourth installment of 2020 individual estimated tax.

February 1

- ☐ Due date for employers to provide W-2 statements to employees, and also file W-2 forms with the Social Security Administration.
- ☐ Due date for payers to provide most 1099 forms to recipients and report 1099-NEC forms with nonemployee compensation to the IRS.
- ☐ Due date for providers to send 1095 forms to recipients.
- ☐ Employers must file 2020 federal unemployment tax returns and pay any tax due.
- ☐ Due date to file 2020 fourth quarter Form 941 for Social Security, Medicare and withheld income tax.

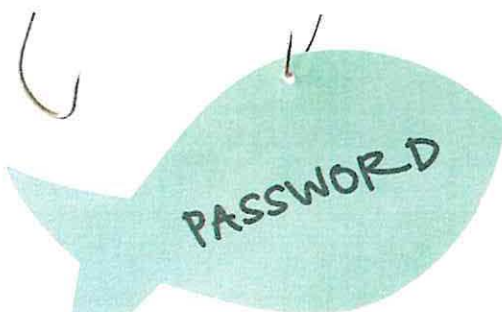
March 1

- ☐ Payers must file 1099-MISC forms with the IRS.**
- ☐ Due date to file 1095 forms with the IRS.**

March 2

- ☐ Farmers and fishermen who did not make 2020 estimated tax payments must file 2020 tax returns and pay taxes in full to avoid a penalty.

**March 31 if filing electronically



Beware of these common tax scams

Here are several of the most common ways you can be defrauded, according to the 2020 Dirty Dozen list of tax scams published by the IRS.

▶ Phishing

Phishing refers to potential fake emails or websites looking to steal your personal information. Remember, the IRS will never initiate contact with you via email.

Action: *If you receive any suspicious phishing emails, forward them to phishing@irs.gov.*

▶ Fake charities

Criminals frequently exploit natural disasters and other crisis situations such as this year's pandemic by setting up fake charities to steal donations.

Action: *Verify the charity's existence by searching for it at https://www.irs.gov/charities-non-profits/tax-exempt-organization-search.*

▶ Threatening phone calls from IRS impersonators

IRS impersonation scams include phone calls threatening arrest, deportation or license revocation if you don't pay a bogus tax bill. The IRS will never demand immediate payment or ask for financial information over the phone.

Action: *If you received a phone call, contact your local IRS office to verify whether you owe any taxes.*

▶ Social media scams

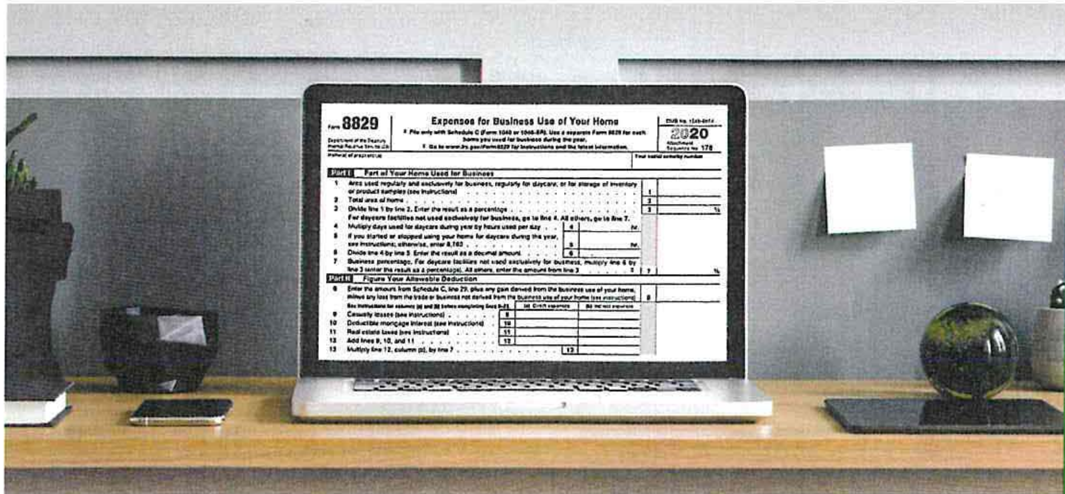
A scammer will use social media platforms such as Facebook and Twitter to obtain personal information from you, then use that information to trick you into providing them with confidential information. For example, the scammer could impersonate a family member, friend or co-worker in an attempt to obtain financial information.

Action: *Be careful of publishing confidential information on social media. Verify the identity of any person or organization that asks you for confidential information.*

▶ Economic impact payment or tax refund theft

Criminals file false tax returns or supply other bogus information to the IRS to divert refunds or Economic Impact Payments to wrong addresses or bank accounts.

Action: *Contact a qualified professional to help walk you through how to report identity theft to the IRS.* ♦



Turn working-from-home into a tax deduction

If you worked from home for the first time in 2020, you may be wondering if your home office is tax deductible. Here's the bad news – if you're working from home for an employer, you normally can't deduct your home office.

Here's a quick look at the basic requirements to be able to deduct your home office expenses, along with several suggestions for how to qualify for the deduction if you're currently working for your company as an employee.

The basics

There are two basic requirements for having a tax-deductible home office:

- **Your home office is only used for business purposes.** Your home office must be used exclusively for operating your business. It can't double as the family media center or living room.
- **Your home office is your primary place of business.** You need to demonstrate that your home office is used as the principal place of your business. The IRS has clarified that you can meet clients and conduct meetings at separate office locations, but your home office can be the only location where your administrative work is completed.

How to qualify for the deduction

If you're currently working for your company as an employee and want to explore alternatives, here are three options for deducting your home office expenses.

- **Become an independent contractor.** The easiest way to deduct your home office expenses is by switching from being an employee to an independent contractor. With a number of firms cutting pay and hours due to the pandemic, it may be worth exploring. There's a big warning if you go this route, however. You will need to account for lost benefits and the additional cost of self-employment taxes. If you can meet the IRS requirements for becoming an independent contractor, it may be an avenue worth considering.
- **Start a side business.** If becoming an independent contractor for your current employer isn't an option, consider starting a side business. You can deduct all business-related expenses on your tax return, including your home office expenses. If you go this route, ensure your home office is in a different location in your home than your other work space.
- **Consider your entire household.** Even if you don't qualify for the home office deduction, maybe someone else living in your home does qualify. So look into your options to see if a family member can take advantage of the home office deduction.

Figuring out how to properly deduct your home office can be a lot more complicated than it appears. If you want to maximize your home office deduction, please call. ♦

Stash your cash here for better rates

Are there any places you can put your money and earn a decent return? Here are several suggestions.

Social Lending

Consider a peer-to-peer loan network that allows you to invest in other people's loans. Typical rates that you can earn range between seven and 20 percent.

Risks: *Social lending is not for the faint of heart. You are acting as a bank and have to be prepared to take loan losses...just like a bank.*

Brokerage Accounts

Brokerage accounts often have a number of options to earn ongoing interest higher than most banks. It includes investing in dividend-bearing stocks, bonds and other CDs.

Risks: *Each product offered within your brokerage account will have its own risks. For instance, dividend stock returns are not guaranteed, and underlying shares can lose value. So never invest in something you don't understand. The good news is many of these savings alternatives are insured by the FDIC or SIPC.*

High Yield Savings Account

High yield accounts don't have very high interest rates. But an account earning .4% to .7% is better than nothing. For a balance of $30,000, this yields about $200 annually.

Risks: *Only choose well-respected, well-managed institutions when selecting an online account. And as always, be especially careful to take security precautions when moving funds online. Also double-check to ensure your funds are FDIC insured.* ♦

This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be easily summarized. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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CLIENT UPDATE
PRACTICAL TAX & FINANCIAL ADVICE

Saving too much can sometimes be expensive

When it comes to money topics, you're always hearing how to save more. But even with the best of intentions, you can run into trouble when you try to save too much. Here are four ways that savings can get in your way and how you can correct them.

Savings that turns into spending

Buying something on sale to save money is still spending. Focus on the amount of money you have to part with, instead of focusing on the great deal. These deals use the human emotion of the fear of losing out, causing you to spend money you did not plan on spending in the first place.

Tip: *Plan your purchases. If something on your list of planned purchases is then on sale, you will truly be saving money. So instead of saving 50% on a new lawnmower, save 100% because you already have one that works just fine.*

Savings that turns into hoarding

This could happen if you have a hard time parting with things for fear you might be able to use it in the future. This could be as simple as buying a new set of dishes or a new pair of shoes and hanging on to the old ones just in case. Each time you acquire something new without throwing out the old, your house gets stuffed with items you don't need.

Tip: *When you need to replace something, try to sell the old item right after bringing in the new item(s). Not only will this keep the clutter out of your home, it will effectively lower the cost of the replacement. And periodically review the contents of your household. Have you used it in the last 12 months? If not, chances are good that you won't need it in the foreseeable future.*

Not replacing things when you should

This savings behavior might actually be costing you money. For example, that old water heater still works, but it could be so inefficient that it is costing a ton in excess electricity or gas. The same could be true with an old car's maintenance bills or even wearing clothes even though you've worn holes in them.

Tip: *Consider replacements as investments. For instance, replacing the old brakes in your car is an investment in your safety. Replacing your worn out shoes is an investment in your comfort. Replacing your toothbrush that is falling apart is an investment in your health.*

Risking damages or dangers

It's great to save money by doing something by yourself, but know your limits. Sure, cutting down that old tree by yourself can save you a ton of money. But the emergency room is full of do-it-yourself savers who lack the experience to do it safely. The same can be true with making financial decisions or even wading through the tax code on your own.

Tip: *Know your limits and ask for help. Sometimes paying a little more is worth it if it means avoiding a potentially dangerous or financially negative situation.* ♦