BENDER, CICCOTTO & CO.
Certified Public Accountants, LLP

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CLIENT UPDATE

WINTER 2021

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Identity theft season starts NOW!

With tax season right around the corner, protecting your identity should start NOW! Here are some of the common signs of tax identity theft according to the IRS and what you can do to protect your identity.

Common signs of ID theft

Here are some common signs of identity theft according to the IRS:

- In early 2022, you receive a refund before filing your 2021 tax return.
- You receive a tax transcript you didn't request from the IRS.
- You receive a notice that someone created an IRS online account without your consent.
- You find out that more than one tax return was filed using your Social Security number.
- You receive tax documents from an employer you do not know.

What you can do

If you discover that you're a victim of identity theft, consider taking the following action:

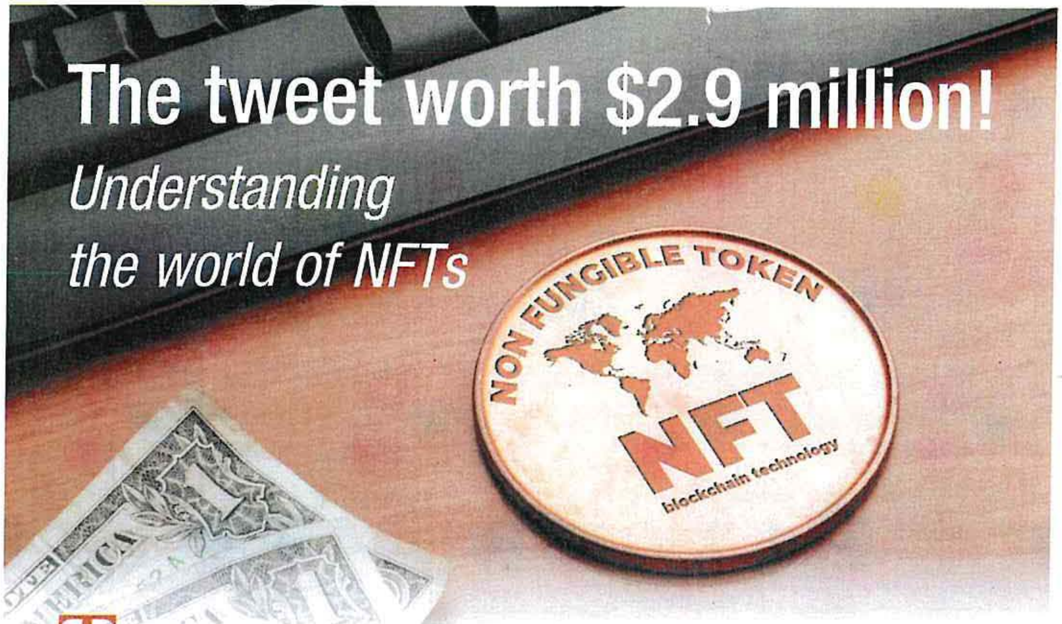
- **Notify creditors and banks.** Most credit card companies offer protections to cardholders affected by ID theft. Generally, you can avoid liability for unauthorized charges exceeding $50. But if your ATM or debit card is stolen, report the theft immediately to avoid consequences impacting access to your funds.
- **Place a fraud alert on your credit report.** Contact any of the three major credit reporting agencies—Equifax, Experian or TransUnion—to request a fraud alert. This covers all three of your credit files.
- **Report the theft to the Federal Trade Commission (FTC).** Visit identitytheft.gov or call 877-438-4338. The FTC will provide a recovery plan and offer updates if you set up an account on the website.
- **Please call if you suspect any tax-related identity theft.** If any of the previously mentioned signs of tax-related identity theft happens to you, please call to schedule an appointment to discuss next steps. ♦

Thank you!

We appreciate your business and look forward to continuing to help with all your tax and accounting needs. Wishing you a happy holiday season and a prosperous 2022!

The tweet worth $2.9 million!

Understanding the world of NFTs



The collectibles industry traditionally is defined by classic keepsakes such as stamps, coins, and trading cards. Today, a new kind of collectible called non-fungible tokens (NFTs) is exploding in popularity. From music to digital game pieces, NFTs are digital assets that sometimes sell for millions of dollars. Twitter co-founder Jack Dorsey sold his first-ever Tweet as an NFT for $2.9 million!

But is there any substance behind the hype? And what does it mean for you?

Understanding NFTs

NFTs offer a certificate of authenticity for any digital asset. This asset can be a piece of music, a token for a popular game, or a piece of digital art. To understand an NFT, consider its components:

Non-Fungible... Where cryptocurrency like a Bitcoin is designed to be readily tradable (fungible), non-fungible is just the opposite. There is one and only one of it.

Token... In this case the non-fungible identification is attached to a specific digital asset or token.

Therefore, each NFT is unique and can readily solve the problem of users creating multiple copies of a digital asset. In effect, Jack Dorsey's original tweet cannot be copied or duplicated because of NFT technology!

Why NFTs are popular

Traditional artists rely on auction houses and galleries to sell their work. These galleries and auction houses authenticate the work as original. Now artists can sell digital works at the same prices as rare works of art by using NFTs to do the authentication work for them. It is so popular now that even companies are getting in on the action. For example, a Charmin digital brand was auctioned off to raise funds for charity.

What you need to know

Here's what you need to know about getting involved with NFTs:

- **Large cash outlay not necessary to invest.** There are multiple NFT marketplaces where you can get involved as a buyer without getting into 6-figure bidding battles. Some of the more popular marketplaces are OpenSea, Rarible, SuperRare and Nifty Gateway.
- **Beware of fees to create NFTs.** If you want to create your own NFT, you'll likely spend hundreds of dollars in various fees to make your own tokens. If you end up selling your tokens, you may be able to cover the cost of these initial fees. If you struggle to sell your tokens, however, you'll end up eating the cost of creating the tokens.
- **Do your research.** Since NFTs are so new, there isn't a lot of history to judge its performance. As with any investment, you could either make a fortune, lose everything you invested, or end up somewhere in between. And these digital assets are treated just like other property, so you would pay capital gains taxes if you sold an NFT at a profit.

Because NFTs are becoming so popular, so fast, many experts are leery of what the world of NFTs will look like in the future. Regulation is currently lacking, and legal precedence is unclear. While blockchain technology can verify your purchase, does owning the NFT of something really mean you own the asset? Will NFTs stand up in court? These are some of the questions being asked without concrete answers. ♦

IRS Update

IRS reminds taxpayers to look at withholdings heading into new year

The IRS reminds taxpayers that late 2021 and early 2022 is a good time to check your paycheck's tax withholding amounts. Various life events in the preceding 12 months can potentially lead to a taxpayer owing a different amount of taxes in 2022 than they owed in 2021.

Taking a fresh look at your withholdings can determine if you have too much withheld and whether an adjustment would put more cash in your pocket. If not enough is being withheld, it could lead to an unexpected tax bill when filing your tax return.

Cost of home testing for COVID-19 is an eligible medical expense

The cost of home testing for COVID-19 is an eligible medical expense that can be paid or reimbursed under health flexible spending arrangements, health savings accounts, or Archer medical savings accounts, the IRS recently published.

The IRS also reminds taxpayers that the costs of personal protective equipment, such as masks, hand sanitizer and sanitizing wipes, for the primary purpose of preventing the spread of COVID-19, are also eligible medical expenses.

No change to fourth quarter IRS interest rates

Interest rates for the fourth quarter in 2021 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 18, 2022

☐ Due date for the fourth installment of 2021 individual estimated tax.

JUST THE FACTS

Borrowed money must be paid back

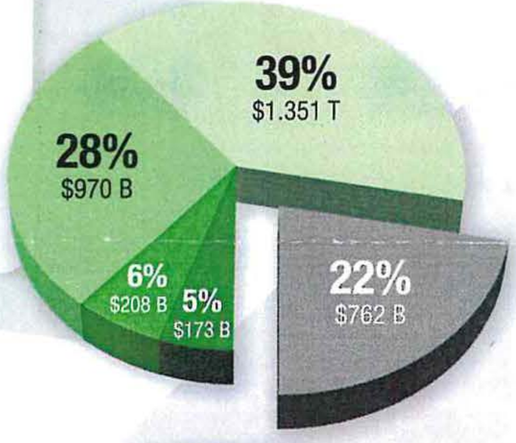
In the back of every Form 1040 instruction booklet there's a section that shows where our federal government gets its money and where it is spent. As taxpayers, it makes sense to know this information. Here are the most recent inflows and outflows as reported by the IRS. Please note that this spending is prior to COVID-19 relief bills.

2019 Calendar Year

Inflow: $3.464 trillion
Outflow: $4.448 trillion
Deficit: $984 billion

TOTAL 2019 INFLOWS

- 39% Personal Income Taxes
- 28% Social Security, Medicare, Unemployment Taxes
- **22% Borrowing to Cover Deficit**
- 6% Excise, Customs, Estate, Gift and Misc Taxes
- 5% Corporate Income Taxes



2019 SPENDING BREAKDOWN

42% Social Security, Medicare, & other retirement. These programs provide income support for the retired and disabled and medical care for the elderly.

21% National defense, veterans, and foreign affairs. About 15% of outlays were to equip, modernize, and pay our armed forces and to fund national defense activities; about 4% were for veterans benefits and services; and about 1% were for international activities.

21% Social programs. About 15% of total outlays were for Medicaid, SNAP (formerly food stamps), TANF, SSI; and 6% for health research and public health programs, unemployment compensation, assisted housing, and social services.

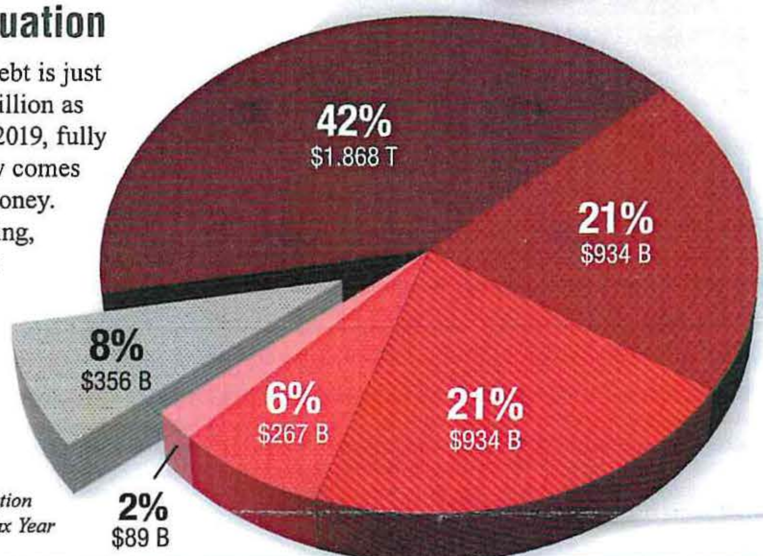
8% Net interest on the national debt (at historically low interest rates).

6% Physical, human, and community development. These outlays were for agriculture and environment; transportation; aid for education and college assistance; job training; deposit insurance, commerce and housing credit; and space, energy, and general science programs.

2% Law enforcement and general government.

Current Situation

Our national debt is just shy of $29 trillion as of press time. In 2019, fully 22% of the inflow comes from borrowed money. Even more alarming, 8% of outflows is interest expense when rates are at historic lows.



SOURCE: IRS publication i1040gi, P.110, 2020 Tax Year

What You Need to Know

- **Deficits of $1 trillion are not sustainable.** No matter where you fall on the political spectrum, annual deficits of $1 trillion cannot be sustained. And remember, this information is detailing a pre-pandemic deficit. It may be several more years before the annual deficit gets back down to this level, if at all.
- **Government borrowing hurts all taxpayers.** In 1990, $50,000 worth of Certificates of Deposits (CDs) earned a cool 8% interest, or $4,164, each year. Today, that same $50,000 earns just 0.6%, or $301. What happened to the other $3,863? Your interest income is now helping to cover money borrowed by the government in the form of lower interest rates. Look at 2019...almost ¼ of the money spent by the federal government was borrowed!
- **Low interest expense risk.** Look at the percentage of money spent on interest expense in 2019. It's 8% with interest rates hovering around zero. So what happens when rates actually start to go up? As a percentage of overall expenditures, interest expense could double to 16%...and potentially go even higher than that.
- **Make a difference.** Whether we should spend more or less is not the issue. It is that spending more than you bring in will cause big problems...eventually. Money doesn't just magically appear on printing presses. That money has to come from someplace and that someplace is from everyone. So make your voice heard...it's your money! ♦

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

Tax court corner

Here's a roundup of several recent tax court cases and what they mean for you.

Coming Up Aces
(Coleman, TC Memo 146, 10/22/20)

You can generally deduct gambling losses up to the amount of your winnings from gambling activities if you can provide proper documentation. Now the Tax Court has allowed one taxpayer to estimate his expenses absent proper documentation.

Facts: A compulsive gambler was able to show that he likely spent the money from a $150,000 personal injury settlement in local casinos. The gambler, however, didn't have the usual records to substantiate his claims. The Court allowed an estimated deduction because it was clear he had incurred significant expenses. The gambler was able to net his $350,000 in gambling winnings with $350,000 in estimated gambling losses.

Tax Tip: *Save documentation for all your tax deductions. Don't rely on a tax court ruling!*

Home (Not) Sweet Home
(Soboyede, TC Summ. Op. 2021-3, 1/26/21)

Your tax home for deducting travel expenses isn't necessarily the place where you live. It's the general area of your primary workplace.

Facts: The taxpayer was an attorney with separate law practices in Minnesota and Washington, D.C. He deducted his hotel expenses and other travel costs in the D.C. area. But his records showed he actually spent more than 50% of his work time in or near the D.C. location. The Tax Court concluded that the attorney's tax home is actually in D.C. As a result, he couldn't deduct his hotel and other expenses from the D.C. area.

Tax Tip: *You can deduct travel expenses only away from your tax home. If you work in multiple locations, be sure you know which location the IRS would consider to be your tax home.*

Skidding Off The Race Track
(Berry, TC Memo 2021-42, 4/7/21)

A business can deduct advertising and marketing expenses that are related to its business activities. No write-off is allowed, however, for personal expenses.

Facts: A father and son who owned a construction firm were race car enthusiasts. They deducted expenses for the son's racing activities that were incurred as an advertising and marketing expense of the construction company. The Tax Court disallowed the deduction, ruling the expenses were a hobby expenditure, not an ordinary and necessary business expense that can be deducted for tax purposes.

Tax Tip: *Understand what is considered an ordinary and necessary business expense by the IRS.*

A Slight Understatement
(Pragrias, TC Memo 2021-82, 6/30/21)

The IRS normally has three years from the due date of a tax return to conduct an audit of that return. This three-year period is extended to six years, however, if the tax return omits more than 25% of taxable income.

Facts: The taxpayer received $4.9 million from a complex investment but reported only about $1.5 million. The IRS audited the return after three years. Despite the taxpayer's contention that he didn't omit taxable income—he said he merely understated it—the Tax Court ruled that the longer six-year limit applies. And as a general rule, there is no statute of limitations for the IRS when fraud is involved.

Tax Tip: *Understand the applicable statute of limitations with your tax returns.* ♦