The Log: A Werner, O'Meara & Co. Newsletter

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Child Tax Credits, Should You Opt Out?

As part of a plan to get money in the hands of the taxpayers sooner, the IRS is now sending out monthly payments of advanced child tax credit to eligible individuals. These payments will add up to 50% of the expected child tax credit for a household. The credit itself is expanded for 2021. It will increase from $2,000 to $3,000 ($3,600 for young children), and is now fully refundable (meaning you will get the money back if it exceeds your tax liability for the year), and the cut-off age is now 17 instead of 16. Income thresholds are also changing. The old credit amount will still phase out at an AGI of $200,000 for a single taxpayer ($400,000 for married), but the additional 2021 amount will phase out at $75,000 for a single taxpayer ($112,500 for married).

There are some disadvantages to receiving this credit. Families that are expecting a big tax refund when they file may be disappointed, since they will have already received a large portion. Or, even worse, they may have received too much and could be required to pay it back. Since the credit will be based on historical data, for both income thresholds and number of dependents, it is entirely possible to receive more than you qualify for in the current year. And, unlike the stimulus payments many Americans received last year, excess amounts do need to be repaid.

To avoid these issues, the IRS allows taxpayers to opt out of the advance payments using the website portal below. For married taxpayers, BOTH parents must opt out. You can also use the portal to provide more up-to-date information for 2021 to ensure the payments are as accurate as possible.

https://www.irs.gov/credits-deductions/child-tax-credit-update-portal

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Have You Used our Client Portal?

Protecting your tax data is imperative. That's why we use SmartVault to create a secure client portal. You can access your past tax returns anytime through the portal. You can also upload your tax documents to the portal which is safer than sending sensitive tax information via email.

If you haven't accessed the portal before, please visit our website at wernercpa.com and click the link in the upper right hand corner that says "Client Portal." There you will find a link to access SmartVault and a short tutorial on how to use the portal. If you have any questions about the portal, or need assistance, please call our office. We are happy to help!

Money Available for Employee Retention

As COVID-19 continues to interrupt the world, it is important to take advantage of the various credits and legislation passed to help small businesses stay open. The Employee Retention Credit (ERC) was created in 2020 to encourage businesses to retain their employees and continue to pay their wages during the Pandemic. The 2020 Employee Retention Credit allowed qualified businesses to claim a 50% refund on up to $10,000 in wages or qualified healthcare expense for each employee paid in qualifying quarters; in 2021 businesses are now eligible for a 70% refund on the same $10,000 in wages and healthcare per employee from January 1 through December 31, 2021. This could mean up to a $5,000 tax credit per employee in 2020 and $7,000 per employee in 2021!

A business can qualify for the credit in two ways: 1) partial or full shutdown or 2) a reduction in gross receipts. The shutdown rule allows a business to claim the credit during any calendar quarter the business was either fully or partially closed for business due to the pandemic. A business can also qualify if it had a decline of 20% in quarterly gross receipts in 2021 or 50% in 2020 as compared to the same quarter in 2019.

Businesses that received a PPP loan are eligible for the credit as long as the wages used for each program do not overlap.

✍ Rachel Sites, CPA & Alexandra Carney

IRS is Overwhelmed

The IRS had an extraordinarily busy tax season this year. It struggled with tax law changes, stimulus payments, more complex tax returns, and pandemic restrictions.

The tax law changed at lightning speed, and the IRS had to interpret it for taxpayers, update their systems, and train their agents. More returns than ever present issues that require manual review. Adding to the complications, the IRS was responsible for issuing 167 million stimulus payments, many of which need to be corrected with the recovery rebate credit on 2020 tax returns. The IRS has also been dealing with the same restrictions and issues facing other office workers during the pandemic, including the challenges of remote work and staffing shortages.

As of the end of this tax season, there were 35 million tax returns waiting to be processed (20% of the total returns submitted). And taxpayers with questions about new laws or stimulus payments have kept the phone lines busy. The IRS has received more phone calls this year than any other, reaching 1,500 calls per second at peak times. Just 3% of callers to the individual tax return help line were able to reach a live IRS agent.

While the IRS works through the back log, here are some helpful online tools the IRS provides: Where's my Refund? www.irs.gov/refunds
Get my Stimulus Payment www.irs.gov/coronavirus/get-my-payment

✍ Rachel Griscom, CPA

Weddings and their Tax Impact

I have written quite a few articles for our newsletter over the last five years but this one may be the most relevant to me personally. As of the publishing of this article I have been married for the better part of a month, so I gather that makes me an expert (in process). Aside from being a major life event, there are some significant changes related to taxes of which newlyweds need to be aware;

Filing status
Your filing status is determined by your marital status at the end of the year. If a couple is married on December 31st, they are married for the entire year for tax purposes. It is rarely beneficial and always more difficult to file as "married filing separately."

Update your tax withholding and estimated tax payments
Your spouse's income and withholding must be taken into account when calculating your own tax withholding and estimates.

Name and address change
Did you change your name? You will need to file the change with the Social Security Administration before we can put your new name on your tax return. Did you move? We can file a form to notify the IRS so you won't miss any documents and other items needed to file your tax return, or we can change your address on your next tax return if your move was close to tax filing time.

Account beneficiaries
Review and update the beneficiaries on retirement and brokerage accounts.

Put together a plan
Everyone is a little different when compiling and submitting their tax documents. You should discuss how and when you plan to submit your tax documents to your CPA.

✍ Charlie Meyerson, CPA