



Tax Newsletter

ZENO, POCKL, LILLY AND COPELAND, A.C.

Certified Public Accountants & Advisors
980 National Road, Wheeling, WV 26003
511 N Fourth Street, Steubenville, OH 43952



FEBRUARY 2021

Upcoming dates:

February 14 – Valentine's Day
February 15 – Presidents' Day

Reminders:

- Organize filing records (1099s, 1098s, W-2s, etc.)
- Schedule tax appointment for a meeting (or just drop off)
- Begin tax planning for 2021



As the tax filing season gets underway, now is a great time to review some tips to help ensure your tax return is processed without delay. Also included are reminders of some surprising tax situations this year due to the pandemic. For small businesses, there are some organizational hints that seem to work and a thoughtful article for all of us to consider about how we tend to undervalue the worth of our personal identities.

4 Ways to Make Sure Your Tax Return Doesn't Get Stuck

Here are four ways to make sure the preparation of your tax return keeps humming along until it gets filed.

1. **Keep tax documents in one place.** Missing items is one of the biggest reasons filing a tax return gets delayed! Find a place in your home and put all tax documents in this one place as you receive them. Common missing items this year will include the new 1099-NEC for any taxpayers that are contractors, consultants, or part of a job contracted for a certain amount of time.
2. **Organize documents by type.** Every tax professional has a story of someone bringing their documents to them in a shoebox or storage container. All this does is increase the amount of time it takes to prepare your return, so it's best to sort your documents in tax return order. Pull out last year's tax return and create folders for each section including income, business/rental information, adjustments to income, itemized deductions, tax credit information, and a "not-sure" bucket.
3. **Create a list of special events.** You receive a Form W-2 from your employer every year. You may get a 1099-INT from your bank if you earn interest income on your deposit accounts. Special events should include things that don't happen every year, such as selling a home, retiring from a job, or sending your child to college. If you don't write down these unusual events as they happen, you might forget them when your tax return is being prepared, and you may not remember until the moment your return is about to be filed. This is sure to cause delays.
4. **Don't forget your signature!** You may be surprised to learn that even if you electronically file your tax return, you still must sign Form 8879, which authorizes the e-filing of your return. So, whether it's a traditionally filed paper tax return or one filed electronically, a signature is required.

These are four of the more common reasons why the preparation of your tax return may get delayed. Be prepared and file your return without a hitch!

Be Prepared for These Pandemic-Related Tax Surprises

Don't get shocked by a high tax bill! Be prepared for these pandemic-related tax surprises when you file your 2020 tax return.

- **Taxes on unemployment income.** If you received unemployment benefits in 2020, you need to report these benefits on your tax return as taxable income. Check to see if either federal or state taxes were withheld from your unemployment payments. If taxes were not withheld, you may need to write a check to the IRS when you file your tax return.
- **Taxes from side jobs.** Did you pick up a part-time job during the pandemic to help with your finances? Payments received for performing these jobs may not have had your taxes withheld. If this is the case, you'll need to pay your taxes directly to the IRS on April 15.
- **Unusual profit-and-loss.** If you run a business that was affected by the pandemic, you may find your estimated tax payments were either overpaid or underpaid, as compared to normal. Now that 2020 is over and done, run a quick projection to ensure that you are not surprised with an unexpected tax bill when you file your tax return.
- **Underpayment penalty.** If you did not have proper tax withholdings from your paycheck, or if your estimated tax payments weren't enough, you could be subject to an underpayment penalty. While it's too late to avoid a penalty on your 2020 tax return, the solution, going forward, is to make high enough estimated tax payments each quarter in 2021, or to have the appropriate amount withheld from your 2021 paychecks.
- **A chance to claim missing stimulus payments. (A good surprise!)** If any of your stimulus payments were for less than what you should have received, you can get money for the difference as a tax credit when you file your 2020 tax return.

Please use these examples to prepare yourself for a potential tax surprise during the uncertainty caused by the ongoing pandemic.

Organized Business Records Save Time and Money

Here are some suggestions to help you master the art of documenting and organizing your business, now and in the future:

- **Document your tax planning strategy.** Be aware of possible tax incentives, such as credits for hiring certain workers and accelerated depreciation available for acquiring business assets. For example, for asset purchases, retain receipts and record the purchase details. These details include the type of equipment, the acquisition date, the amount of the purchase, the date you began using the equipment, and a schedule of related set-up costs.
- **Organize your daily documents.** Organize your desk by shredding documents with sensitive information and scanning older papers into computer files. The most efficient method is to scan, file, and shred as soon as you are finished with a document. If you don't have time, consider assigning document organization to specific employees and making it a task to be completed on a daily basis.

You're busy, and you may feel that organizing your records will take more time than you have available. But spend some time considering how using these organizational tips may save you time and money.

Your Identity is NOT Your Own!

How companies use your identity and what you can do to protect it.

One of the most valuable things you own is YOU. Your identity includes the basics – where you live, your age, and your gender. But it also includes your interests, who you know, and what you buy. So, do you know who has your identity? Here's the life cycle of your identity and what to do to protect it:

It gets collected. Think about the organizations that legally collect information about your identity – your employer, government entities, insurance companies, banks, credit reporting agencies, and nonprofit organizations. Then, add those companies you give your identity to freely, such as Google, Facebook, LinkedIn, Twitter, and any other website or social media platform you visit.

It gets stored. Once your identity gets collected, it then needs to be stored somewhere. Storage is most often on servers or locally on a computer or mobile device. This is one of the core concerns with Tik-Tok, a Chinese-originated short video service. The concern is that a foreign entity will have stored U.S. citizen's interests and behaviors that can help identify potential targets that can be manipulated.

It gets sold. Once information related to your identity and interests are collected, most organizations then sell it to other companies. Not only is information about your identity sometimes collected without your knowledge, this information is then monetized. Your viewing behavior can also be actively manipulated by the sites you view. So, if you read articles about cats, you are going to see a lot more articles about cats and ads that relate to cat-lover behavior. This is often so subtle, you do not realize it is happening.

It gets accessed. If your information is considered public record, anybody can see it. Business licenses, property tax records, and real estate ownership are just a few examples of personal information that anyone can access.

It gets stolen. Identity thieves are always looking for ways to access your information. Thieves either hack one of the organizations that collects your confidential information, or they find a way to trick you into giving them your information, with techniques such as phishing emails.

What you can do:

- ***Opt-out of providing personal information.*** The best place to start with protecting your identity is knowing who has access to it and asking if they really need it. Consider opting out of providing information if possible.
- ***Be vigilant with the data you possess.*** While you can't control how secure an insurance company's servers are, you can control how secure you handle the information and documents you possess. Be on the lookout for phishing emails, verify requests for your information, and don't forget about destroying documents containing sensitive information.

Protect Your Tax Return with This Secret Weapon!

The Problem

So, you just learned that you're getting a pretty sizeable tax refund this year? Now all you need to do is wait a week or two for the IRS to deposit the money into your bank account. This good news, however, is unfortunately short lived, once you receive another phone call: *"I'm sorry to tell you this, but someone else has already used your Social Security number to file a tax return."*

You're told that you'll still be able to eventually get your big tax refund, but it may be several months before you see the money. You first need to work with the IRS to resolve your case of identity theft.

The Solution

There's a secret weapon you can use to protect your tax return – an Identity Protection PIN ("IP PIN").

Beginning this tax season, all taxpayers who can verify their identities are eligible to obtain an IP PIN. An IP PIN is a 6-digit PIN that offers additional protections when filing your tax return. This one-time-use number is sent to you by the IRS and must be entered on your tax return along with your Social Security number. Since the IP PIN is a one-time-use number, you will receive a new IP PIN number each year from the IRS.

If someone tries to fraudulently file a tax return using your Social Security number, they will be unable to do so without this IP PIN.

What You Need to Do

- **How to get an IP PIN.** To obtain an IP PIN, go online to visit the IRS's *Get an IP PIN* tool in order to opt into the IP PIN program.
- **If your identity has already been stolen.** If someone uses your Social Security number to fraudulently file a tax return, ask for help to find out the next steps for getting your identity fraud case resolved with the IRS.
- **Committing to the IP PIN program.** As this is the first year the IRS is making the IP PIN program available for anyone who wishes to use one, they are not ready to let you opt out once you agree to participate. ***They anticipate adding the opt-out feature in the near future.*

Hiring Family Members – What You Need to Know!

Many business owners hire their children, their spouse, or other family members to work in their business. Let's look at the pros and cons of putting family members on your payroll.

Hiring Your Children

Hiring your kids for a job usually has more tax advantages and fewer drawbacks than hiring other relatives. The financial advantage is that if you're paying your child to do useful work, the business gets a tax deduction for the wages paid. Your child will probably pay little or no income tax, and the after-tax wages stay in the family.

Follow certain steps to make sure these wages are fully deductible. The child must be doing a real job that helps the business, and the wages must be reasonable for the work performed. Keep detailed records of hours worked and pay salary regularly, preferably on the same schedule as other employees. In other words, treat your child just like any regular employee.

Hiring Your Spouse or Other Relatives

An advantage to hiring your spouse or other relatives is that you have an employee who you know well, and who may be more motivated or more flexible than a non-family member. And in many family-owned businesses, it's a powerful way to train the next generation who will take over leadership.

That same familiarity can bring disadvantages, however.

Few families are without some internal or intergenerational conflict; this can be problematic if it spills over into the workplace. You must also consider the effect on other employees. Any sign of favoritism or unequal treatment can cause resentment and negatively affect the motivation of other employees.

There Could Be Tax Benefits

Depending on how your business is organized, and the age of your child, you may be able to avoid paying Social Security, Medicare, and unemployment on their wages. To qualify, you must be a sole proprietor, or a husband-wife eligible partnership, and your child must be under the age of 18.

Be Cautious Moving Forward

There are plenty of businesses where hiring family members has worked out, but other businesses where it did not. Before bringing family members into the business, talk to them and to your key employees, so that everyone understands and is comfortable with their roles in the company.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us at 304-233-5030.