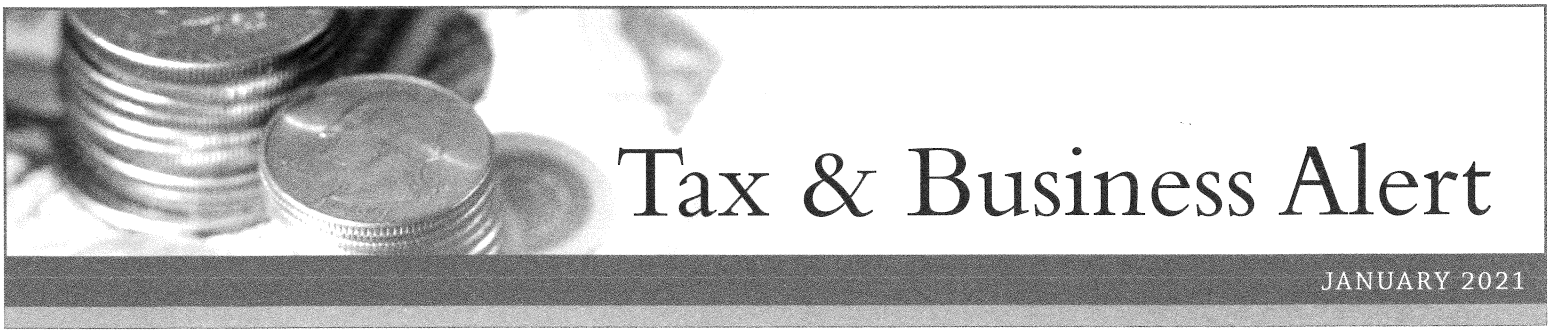
SEIKEL & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

www.seikel.com

686 W. MARKET STREET AKRON, OHIO 44303 (330) 668-1040 (330) 761-1040 FAX (330) 535-7253



Tax & Business Alert

JANUARY 2021

6 KEY TAX Q&AS FOR 2021

Right now, you may be more concerned about your 2020 tax bill than you are about how to handle your personal finances in the new year. However, as you deal with your annual tax filing, it's a good idea to also familiarize yourself with pertinent amounts that may have changed for 2021.

Not all tax figures are adjusted for inflation and, even if they are, they may be unchanged or change only slightly each year because of low inflation. In addition, some tax amounts can only change with new tax legislation. Here are six commonly asked (and answered) Q&As about 2021 tax-related figures:

1. How much can I contribute to an IRA for 2021? If you're eligible, you can contribute $6,000 a year into a traditional or Roth IRA, up to 100% of your earned income. If you're age 50 or older, you can make another $1,000 "catch up" contribution. (These amounts are the same as they were for 2020.)



2. I have a 401(k) plan through my job. How much can I contribute to it? For 2021, you can contribute up to $19,500 to a 401(k) or 403(b) plan. You can make an additional $6,500 catch-up contribution if you're age 50 or older. (These amounts are also the same as they were for 2020.)

3. I sometimes hire a babysitter and a cleaning person. Do I have to withhold and pay FICA tax on the amounts I pay them? In 2021, the threshold for when a domestic employer must withhold and pay FICA for babysitters, house cleaners and other domestic employees is increasing to $2,300 from $2,200 for 2020.

4. How much do I have to earn in 2021 before I can stop paying Social Security on my salary? The Social Security tax wage base is $142,800 for 2021, up from $137,700 for 2020. That means that you don't owe Social Security tax on amounts earned above that. (You must pay Medicare tax on all amounts that you earn.)

5. I didn't qualify to itemize deductions on my last tax return. Will I qualify for 2021? The Tax Cuts and Jobs Act eliminated the tax benefit of itemizing deductions for many people by increasing the standard deduction and reducing or eliminating various deductions. For 2021, the

standard deduction amount is $25,100 for married couples filing jointly (up from $24,800 for 2020). For single filers, the amount is $12,550 (up from $12,400) and, for heads of households, it's $18,800 (up from $18,650).

So, if the amount of your itemized deductions (such as charitable gifts and mortgage interest) are less than the applicable standard deduction amount, you won't itemize for 2021.

6. How much can I give to one person without triggering a gift tax return in 2021? The annual gift exclusion for 2021 is $15,000, unchanged from last year. This amount is only adjusted in $1,000 increments, so it typically increases only every few years.

These are only some of the tax figures that may apply to you. For more information about your tax picture, or if you have questions, don't hesitate to contact us. ■

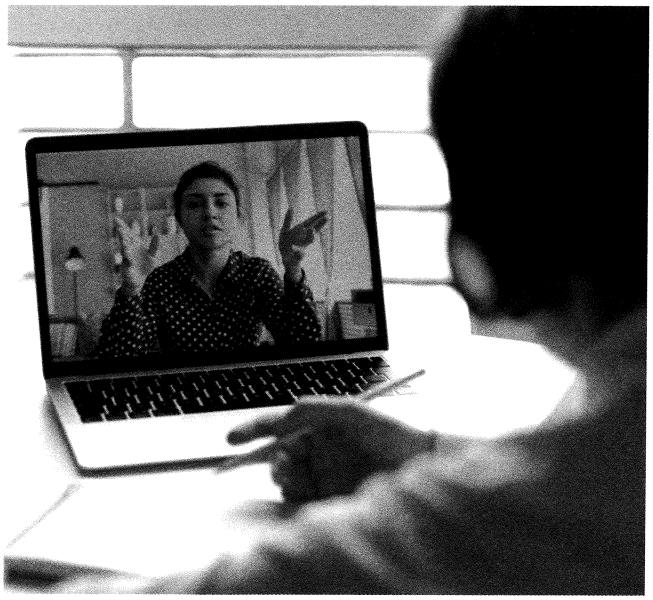
BUSINESS BARTERING IS TAXABLE

During the COVID-19 pandemic, many cash-challenged businesses have bartered for goods and services instead of paying dollars for them. If your company gets involved in such a transaction, remember that the fair market value of goods that you receive is taxable income. And if you exchange services with another business, the transaction results in taxable income for both parties.

A COUPLE OF EXAMPLES

Let's say a computer consultant agrees to exchange services with an advertising agency. Both parties will be taxed on the fair market value of the services received. This is the amount they'd normally charge for the same services. If the parties agree to the value of the services in advance, that will be considered the fair market value unless contrary evidence exists.

In addition, if services are exchanged for property, income is realized. Say a construction company does work for a retail business in exchange for unsold inventory. The contractor will incur income equal to the inventory's fair market value.



BARTER EXCHANGES

Many businesses join barter clubs that facilitate these transactions. Generally, these clubs use a system of "credit units" that are awarded to members who provide goods and services. The credits can be redeemed for goods and services from other members.

Bartering is generally taxable in the year it occurs. If you participate in a barter club, however, you may be taxed on the value of credit units at the time they're added to your account — even if you don't redeem them for actual goods and services until a later year.

By January 31 of each year, a barter club will send participants a Form 1099-B, "Proceeds from Broker and Barter Exchange Transactions," which shows the value of cash, property, services and credits that they received from exchanges during the previous year. The IRS will also receive this information.

If you join a barter club, expect to provide your Social Security number or employer identification number. You'll also be asked to certify that you aren't subject to backup withholding. Unless you make this certification, the club will withhold tax from your bartering income.

POTENTIALLY BENEFICIAL

So long as you're aware of the federal and state tax consequences, business bartering transactions can be beneficial. Contact us if you need assistance or would like more information. ■

ARE YOU AT RISK FOR INVESTMENT FRAUD?

Perpetrators of investment fraud know how to push the right psychological buttons to entice their "marks" to buy worthless or nonexistent securities. You can mitigate your risk by asking a few questions, performing some research and consulting with trusted advisors.

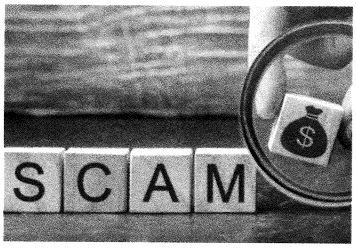
WATCH OUT

Be alert for these common scams:

Pyramid and Ponzi. The con artist promises high returns, often in a short period, yet there's no actual investment product. Instead, the scheme relies on continually recruiting new participants whose money is used to pay "returns" to earlier participants. As the scheme grows, it becomes increasingly difficult to attract enough new investors and pay old ones. Eventually it collapses and most participants lose everything.

Pump and dump. Fraudsters use false or misleading statements to recruit investors and boost the price of an obscure and usually low-priced stock. When the stock rises to a certain level, the crooks dump their shares and disappear. The stock price plummets, leaving investors with nearly worthless holdings.

Advance fee. These schemes usually target individuals holding a failed investment. A fraudster may offer, for example, to take a losing stock off your hands for an attractive price provided you pay an up-front fee. Once you pay the fee, the thief vanishes.



LOOK FOR SIGNS

Be suspicious of investments that offer guaranteed returns or remarkably consistent returns even during turbulent times. Avoid unregistered securities sold by unlicensed individuals or investments that lack documentation (for example, a prospectus).

You can verify a professional's credentials with the U.S. Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and state securities agencies. If you're tempted to invest with an unknown "broker" or buy an unfamiliar stock, FINRA's website (finra.org) offers a variety of points to double-check before engaging in the transaction.

Most investments must be registered before they can be sold to the public, so plug the security's name into the SEC's EDGAR database (sec.gov/edgar.shtml). Keep in mind that registration alone doesn't guarantee that an investment is legitimate or appropriate.

RELY ON GOOD ADVICE

Ultimately, the best defense against investment fraud is to work with financial advisors you know and trust. If you've received a "hot tip," always run it by at least one trusted advisor before plunking down any money. ■

TAX CALENDAR

January 15

Individual taxpayers' final 2020 estimated tax payment is due.

February 1

File 2020 Forms W-2 ("Wage and Tax Statement") with the SSA and provide copies to your employees.

- File 2020 Forms 1099-NEC ("Nonemployee Compensation") reporting nonemployee compensation payments with the IRS and provide copies to recipients, along with a related Form 1096 ("Annual Summary and Transmittal of U.S. Information Returns") to the IRS.
- Most employers must file Form 941 ("Employer's Quarterly Federal Tax Return") to report Medicare, Social Security and income taxes withheld in the fourth quarter of 2020. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until February 10 to file the return. Employers who have an estimated annual employment tax liability of $1,000 or less may be eligible to file Form 944 ("Employer's Annual Federal Tax Return").
- File Form 940 ("Employer's Annual Federal Unemployment [FUTA] Tax Return") for 2020. If your undeposited tax is $500 or less, you can either pay it with your return or deposit it. If it's more than $500, you must deposit it. However, if you deposited the tax for the year in full and on time, you have until February 10 to file the return.
- File Form 943 ("Employer's Annual Federal Tax Return for Agricultural Employees") to report Social Security, Medicare and withheld income taxes for 2020. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.
- File Form 945 ("Annual Return of Withheld Federal Income Tax") for 2020 to report income tax withheld on all nonpayroll items, including backup withholding and withholding on pensions, annuities, IRAs, etc. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.

March 1

File 2020 Form 1099-MISC ("Miscellaneous Income") reporting certain payments to certain persons and provide copies to recipients, along with a related Form 1096 ("Annual Summary and Transmittal of U.S. Information Returns") to the IRS.

March 15

2020 tax returns must be filed or extended for calendar-year partnerships and S corporations. If the return isn't extended, this is also the last day for those types of entities to make 2020 contributions to pension and profit-sharing plans.

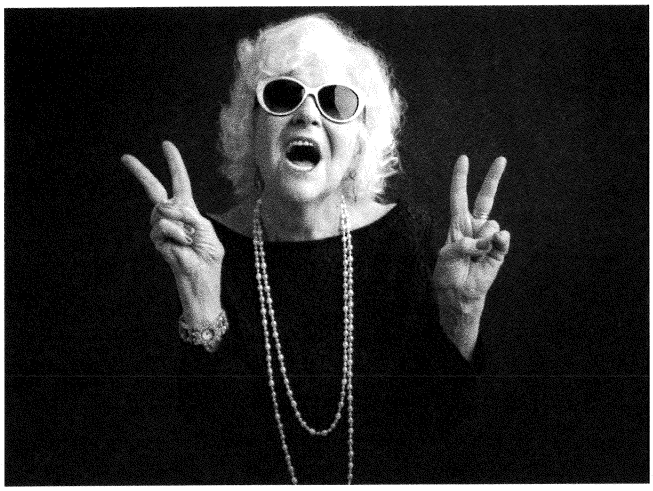
SEIKEL & CO INC
686 W MARKET ST
AKRON OH 44303-4303

TWICE AS NICE: THE TEMPORARY GIFT TAX BREAK

The Tax Cuts and Jobs Act temporarily doubled the federal gift and estate tax exemption through 2025. Adjusted for inflation, the exemption currently allows an individual to transfer up to $11.7 million free of federal gift or estate tax in 2021 (up from $11.58 million in 2020). Married couples can shield up to $23.4 million from those taxes in 2021.

These sizable exemption amounts create an attractive opportunity to minimize taxes on your wealth by gifting business interests or other assets to family members before they drop to their previous levels of $5 million and $10 million, respectively (adjusted for inflation) on January 1, 2026.

Some affluent families have been reluctant to take advantage of this opportunity for fear of a "clawback." In other words, they are worried that a portion of their pre-2026 gifts may be clawed back and subject to estate taxes if the exemption amount is lower when they die.



Although Congress didn't appear to intend such a result, a literal reading of the tax code suggested that previous gifts could be added back into one's estate and subject to tax based on the exemption amount in effect in the year of death. Fortunately, IRS regulations finalized in November 2019 provide assurances that this won't happen. ■

This publication is distributed with the understanding that the author, publisher and distributor are not rendering legal, accounting or other professional advice or opinions on specific facts or matters, and, accordingly, assume no liability whatsoever in connection with its use. The information contained in this newsletter was not intended or written to be used and cannot be used for the purpose of (1) avoiding tax-related penalties prescribed by the Internal Revenue Code or (2) promoting or marketing any tax-related matter addressed herein. © 2021