TaxUpdate

2022 TAX TIPS NEWSLETTER

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A Tax Nightmare on Your Horizon

MUST READ if using digital payment tools

A recent tax law change now requires transaction reporting to the IRS for anyone receiving payments through digital payment tools like PayPal, Venmo, and CashApp. Here is what you need to know.

What is happening now

They need your Social Security number. If you use digital payment platforms you will now need to provide your Social Security number and a valid name and address to accept digital payments.

The IRS will know. Most of these transactions for those receiving funds will now have this activity reported to the IRS if the total for the year exceeds $600. This is true even if you lose money on the transaction.

Your taxes may be more complicated. You may now need to report the transactions on your 2022 tax return, even for casual transactions that lose money.

You may receive many 1099-Ks. You can expect to receive a separate 1099-K from every platform you use where you exceed the $600 threshold.

The IRS watchdog approach. Prior to 2022, the reporting threshold was $20,000 AND more than 200 transactions. Now the transaction threshold is eliminated and the dollar threshold is lowered to $600.

What to do now

Coach your friends. Whenever you exchange money in a digital format, mark the transaction as non-business. Each application will handle this differently, but it is critical you do this to avoid getting a 1099-K in error.

Use cash or check. When receiving payments from friends, if there is potential for error ask for a check or cash. This will avoid the 1099-K reporting mess.

Split payments. When splitting a bill at a restaurant, do not have one person pay and then get reimbursement. Instead, ask the restaurant to split the bill and everyone pay their share. You can make this easy on your server if you are willing to split the bill evenly.

Understand the problem. When receiving a digital payment, you are relying on the person paying you to code the transaction correctly. Unfortunately, you cannot make them do it correctly, so you now need to keep track of digital money received, who it was from, and for what purpose.

True business transactions. Many reporting platforms are inconsistent on business transaction reporting. Some will report your income twice, once on a 1099-K and again on another tax form (1099-MISC or 1099-NEC). You must actively monitor this information.

Casual users of seller platforms are now in business. Infrequent users of places like eBay, Etsy and Amazon are now in business when payments received are more than $600. Be prepared to create a business tax return on Schedule C of your Form 1040.

This seemingly simple change will further complicate filing taxes AND processing taxes for the IRS. For now, simply track your digital payment activity to avoid 1099-K reporting surprises.

Tips to Identify Scams BEFORE They Happen

While not a sure-fire way to avoid all types of scams, if you follow these hints to identify them, the likelihood of being a victim lowers dramatically.

Hints to identify scams

- ❑ Personal information is requested via email, web, or phone.
- ❑ The contact comes to you, and not the other way around.
- ❑ Emails ask you to click on something.
- ❑ You are asked to visit a website.
- ❑ Initial contact from the "IRS" is anything other than mail.
- ❑ You feel threatened.
- ❑ Fear is used as a tactic.

You are a target

If you fit into one of the following groups of people, your scam meter should go way up. Here are the groups most at risk for ID theft, along with why these groups are tempting targets:

- ❑ **ELDERLY:** *High trust, generally less tech savvy*
- ❑ **STUDENTS:** *Low income, high debt, and lack of street smarts*
- ❑ **IMMIGRANTS:** *Easy to threaten residence status, lower understanding of processes*
- ❑ **HEAVY SOCIAL MEDIA USERS:** *More willing to give away their identity and to click on things*

I'm Being Audited by the IRS!

2022 TIPS

Less than 1% of more than 145 million individual tax returns filed during 2021 will be selected for audit. The percentage increases for higher income taxpayers, along with tax returns in areas of specific interest to the IRS. Here's what you should remember if you receive a notice from the IRS of an impending audit:

- IRS computers usually flag the tax returns for audits. The vast majority of them are routine.
- Because of the flagging process, your audit will usually focus on one to three areas of your tax return.
- Audits do not automatically mean something is wrong. It is possible to receive an additional refund or for no change to be made at all as a result of an audit.

What to do if you are audited

- **Don't panic.** Open all correspondence and respond to all requested information in a timely fashion.
- **Keep good records.** Be prepared to support your tax return details. Do this as you prepare your tax records each year.
- **Ask for help.** You are not a tax professional, but the IRS auditor is. Get help and do so as soon as possible after receiving your notice. Let professionals deal with the IRS as much as possible.
- **The best defense is a good offense.** Identify the information in question and prepare as much as possible to defend your tax return prior to any meetings with auditors.
- **Do not volunteer information... only answer questions.** Answer only the questions under review. It helps both you and the often overworked auditor. Avoid attending meetings with an auditor on your own.
- **Do not make it personal.** Remember to be polite and avoid making comments about anything other than what is being asked.

If you feel you are being treated unfairly, remember there are numerous means within the system to help you, such as talking to an auditor's supervisor or using the IRS taxpayer advocate service.

Time for Tax Planning!

With all the tax law changes over the past few years, here are some things that should trigger you to conduct a full tax planning session to ensure your tax bill is not higher than it needs to be.

- **You owed tax in 2021.** Having a surprising tax bill is never fun. So if you owed taxes last year, project your current year obligation if you have not already done so.
- **Your household income is over $150,000 single and $200,000 joint.** As your income grows, so does your tax bill. This occurs because tax rates increase, and tax benefits phase out. This includes things like lower child tax credit amounts, increases in capital gains tax rates, higher income tax rates and Medicare surtaxes.
- **You are getting married or divorced.** The tax penalty for being married is higher than ever. Are you prepared?
- **You have kids attending college next year.** There are a number of tax programs you may wish to review and determine their impact on your tax return.
- **You have a small business.** There are depreciation benefits, qualified business deductions, and numerous small business tax credits to consider. A review is especially important if you have a business that is a flow through entity like a Subchapter S, as these entities are taxed on your personal tax return.
- **You plan on selling investments.** Capital gains tax rates can now range from 0% to 37% (or even higher if the net investment income tax applies).
- **There are changes in your employer-provided benefits.** These changes could impact your taxable income this year.
- **You buy or sell a home, or go through a home foreclosure.** There are great tax benefits within your home, but only if you know about them and plan accordingly.
- **You have major medical expenses.** It is harder than ever to itemize deductions, but one way it's possible to itemize is if you have a major medical expense. When this happens, it is time to review ALL itemized deductions to minimize your taxes.
- **You recently lost or changed jobs.** Understanding the tax impact of unemployment benefits is crucial.
- **You have not conducted a tax withholding review.** To avoid under withholding penalties, you need to ensure your withholdings are sufficient.
- **Your estate has not been reviewed in the past 12 months.** Recently passed estate laws and potential changes in these rules make an annual review a must.

If any of these triggers apply to you, please schedule a tax planning session.