

Hello!

I hope 2021 finds you well and this year brings about healing and a better world for us all. In stark contrast to last year's 25 week long tax season this year is (currently) slated to be condensed to only 9 ½ weeks. We anticipate another ever-evolving tax season that may involve fundamental tax law, public health guidelines, or procedural changes mid-season, hopefully not quite as many as last year. Because the nature of a seasonal business involves contact with so many people in such a short timeframe, we have implemented guidelines to help first and foremost keep every single one of our clients safe and secondly, for our own health and to mitigate the risk of an interruption to business operations during our busy season. We will not be having sit-down appointments but have laid out alternative options that we have implemented for the safety of everybody this year. In a business profession that operates best with face-to-face meetings, original documents, and wet signatures, we realize that the available options might not work for everybody and we very much look forward to resuming our normal business practices for tax season 2021.

Income Tax Season Start & Due Date- The IRS will be open for the 2021 tax season on Feb 12th. Tax refunds that include refundable credits will not be released until the first week of March. The filing deadline is currently at the traditional April 15th due date but as we found out last year, that could change.

Schedule C & E Taxpayers- We have new organizers specifically for our self-employed clients that will need to be completed and submitted with your tax paperwork. The more organized you are the better we can assist you in completing your tax return with the most advantageous outcome, especially this year.

Economic Impact Payment- Any amount received from the two stimulus checks will not be taxed as income but is considered an advanced payment of the 2020 Recovery Rebate Credit. If you did not receive a payment, or received a reduced amount, and are eligible for a higher amount because of a change in adjusted gross income, family size, or because you were a dependent in 2019, you will receive the difference as a credit that will be part of your income tax refund. The credit eligibility will remain the same as the stimulus eligibility. If your 2020 AGI has increased and you no longer qualify for the amount received, or you no longer have a dependent on your tax return, you will not be required to pay it back. If your stimulus check has been lost, stolen, or destroyed you cannot receive it through your tax refund, you will need to contact the IRS payment trace hotline. Reporting inaccurate amounts on your 2020 tax return will result in a significant delay in the IRS processing your tax return. We will require a copy of the IRS Notice 1444 that was mailed following payment. If you no longer have that notice you can go to "Where's My Payment" on IRS.gov and print out your stimulus summary.

"Lookback Adjustment" for Child Tax Credit and Earned Income Tax Credit- For qualifying taxpayers whose 2020 earned income is lower than it was in 2019, their 2019 earned income may be used to calculate the credit.

Unemployment Wages- Unemployment compensation is taxed as ordinary income, including the additional supplemental amount received weekly. If taxes were not withheld during the year, they will have to be paid with the filing of your tax return. Because of the high volume of unemployment in 2020 we anticipate this affecting the bottom line for a lot of taxpayers who may owe for the first time. We will have handouts available for setting up a payment plan with the IRS if an installment agreement better suits your current budget.

Qualified Retirement Plan distribution- The CARES Act has waived the 10% early withdrawal penalty for early withdrawal distributions if certain stipulations are meant, it will still be taxed at your ordinary income tax rate. The distribution must have been taken during the 2020 calendar year and cannot exceed \$100,000. A qualified individual is anyone who has been diagnosed with the COVID-19 virus or has experienced adverse financial or health consequences due to being quarantined, furloughed, laid off, or loss of childcare. An individual also qualifies if his or her spouse or a member of his or her direct household has experienced any of the above. Taxpayers have the option to spread the distribution amount evenly over the next three tax years. If the taxpayer recontributes that amount during the next three years, to any qualified retirement account, it will be considered a rollover and prior tax returns will then be amended to remove the taxable amount. An additional form, Form 8915-E Qualified 2020 Disaster Retirement Plan Distributions and Repayments, will need to be submitted with your tax return.

Educator Expense Deduction- The deductible amount allowed stays the same at \$250 but the definition of qualified educator expense has been expanded to include personal protective equipment, disinfectant, and other supplies to prevent the spread of COVID-19.

Charitable Contributions- Under the CARES Act, individual taxpayers who do not itemize can deduct up to \$300 of qualified charitable contribution. The donation must be in the form of money payment and can not be donated clothing or household items. The IRS has advised that the taxpayer will need to keep proof of payment in the form of receipt, voided check, or bank statement as they may require proof up to three years after filing.

Paycheck Protection Program, Federal & MA- The tax implications regarding a PPP loan and forgiveness have changed several times throughout the year. The last-minute passing of Coronavirus Response and Relief Supplemental Appropriations Act deemed any forgiven PPP amount received *federally* tax-exempt. Additionally, business expenses purchased with forgiven funds can be written off as an expense. However, Massachusetts does not follow the federal tax code and will be taxing any PPP amount forgiven in 2020.

Economic Impact & Disaster Loan Advance- The advance amount received is considered a grant and will not be taxed or reported on your federal tax return.

IRS Operations During Covid- The IRS is going into the 2020 tax season still having over 9 million items of mail to process from tax year 2019. The average turnaround time we saw for mailed payments and paperwork was 3-6 months, with tax returns taking longer. We recommend all mail communication be sent certified or with tracking for proof of receipt. The IRS continues to operate with reduced staffing. In a press release the IRS stated "Unfortunately, other than responding to any requests for information promptly, there's no action you can take. We're working hard to get through the backlog. Please don't file a second tax return or contact the IRS about the status of your return." The overwhelming majority of refunds go through an automated system and are sent within two weeks but if for any reason it needs the attention of an IRS agent, even for something simple like new address verification, you could see a delay. Per their statement "Taxpayers shouldn't rely on receiving a refund by a certain date, especially when making major purchases or paying bills. Some tax returns may require additional review and processing may take longer." Once the IRS has accepted the tax return into their database, we have no control over the speed at which they issue the refund.

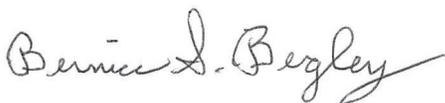
Tax Refund Interest Payment- If the IRS paid you more than \$10 in interest for the delay of your refund you will be issued a 1099-INT and the interest received will be taxable on your tax return.

Penalty for Underpayment of Estimated Tax- The US income tax system is a pay-as-you-go tax system, which means that you must pay income tax as you earn or receive your income during the year. If you didn't pay enough tax throughout the year, either through withholding or by making estimated tax payments, you may have to pay a penalty for underpayment of estimated tax. The IRS has gotten increasingly strict about enforcing penalties & interest on balance dues by sending out an IRS bill after the filing of your tax return.

Virtual Currency- The IRS continues to highlight the need for virtual currency transactions to be reported on the individual's tax return. Virtual currency is treated as property and general tax principles applicable to property transactions apply to transactions using virtual currency. Additional information will be needed if you engage in the buying and selling of virtual currency.

Healthcare Connector- Health Insurance purchased through the federal marketplace or the state healthcare connector requires additional information to be filed with your tax return. You will receive multiple year-end tax forms from your health insurance but the one that is essential for the accurate filing of your tax return is 1095-A. All other forms you may receive (1095-B/C, 1099HC) will not indicate that you have insurance through the marketplace or have the figures required. This is one of the leading causes for a delay in the IRS processing of a tax return.

I know 2020 was an uncertain year financially for many. I look forward to assisting you in finishing out the year with the filing of your 2020 tax return and looking forward to a brighter tomorrow.



Bernice S. Begley, EA
O'Brien Tax & Financial Services