

Filing Taxes Under the Pandemic

The Schubert Club of Fairfield County
Music Teachers' Roundtable Meeting

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Rita Lewis, MBA, EA
Dollars & Sense, LLC

“

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Rita Lewis, EA
Owner, Dollars & Sense



Rita Lewis carved a successful niche for herself, building a solo practice specializing in high-end clients from a spare bedroom in her Weston, Conn., home.

Soaring to New Heights

This tax preparer was able to expand her practice and grow revenue 44 percent—all while flying solo. Here's how she did it.

What do you do when you have an MBA in finance and experience as a controller, but you've had your fill of working with big corporations? If you're Rita Lewis, EA, you chuck it and go to work for H&R Block to pursue a newfound passion: tax preparation.

"I was only going to work for them a couple of years but ended up staying for 11, in a year-round H&R Block Premium office, working on business and high-end individual returns," she says. "I like the kind of clients who need a little extra hand-holding."

In 2008, Lewis took the plunge. She launched a full-time solo practice, Dollars & Sense, continuing to focus on high-end clients with complex returns. She runs it out of a spare bedroom in her Weston, Conn., home. "I decided to work from home so that I could walk back into my office when clients need me, even on a Sunday."

In addition to preparing about 100 individual and business tax returns each year, Lewis consults

with clients who are just starting in business. "Often, they need help with the proverbial shoebox of receipts," she says. About 15 percent of her practice involves tax preparation for C corps, S corps, trust funds and a couple of nonprofits.

SOFTWARE AS A SAFETY NET

Lewis examined several software products for tax preparation before she made the critical decision to select ProSystem fx Tax from CCH. "Software is a major tool in this business and not a place to scrimp," she says. "When it is April and you are sleep-deprived and you have complex returns like I do, you need the safety net of really good software. I have never regretted it."

In her first year, Lewis faced the last weekend before filing day with seven returns to complete. "One was a family with two children and each child had a trust fund with investment income, so the 'kiddie tax' came into play," she says. "I had another set of returns where the husband and wife

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had several partnerships and a lot of investments. I swear their return was an inch thick."

She found return preparation seamless and easy. "I just clicked on a button in ProSystem fx Tax, and the correct kiddie tax flowed into the returns," Lewis says. "I clicked another button, and all the K-1 data transferred. Then I imported the investment data from an Excel spreadsheet. I never would have gotten those seven returns done in a weekend otherwise."

PUTTING IT ALL TOGETHER

Lewis added CCH Site Builder the first year and used it to set up a website for Dollars & Sense. Site Builder includes FileShare, which allows clients to upload and download documents securely using CCH servers. "FileShare is not as robust as ProSystem fx Portal but is perfect for my business," Lewis says.

Two years ago, Lewis added IntelliConnect, CCH's tax research platform. "I love getting daily emails telling me what's happening," she says. This year, Lewis added the CCH Tax Prep Partner Series, so she can look up tax questions while working in a return, and just added CCH Mobile, as well. "Now if I'm out somewhere and people ask me what's new, I can say, 'Let me look and see if Congress voted today.'"

Saving time and operating efficiently are essential in a solo practice. But Lewis sees another reason to fully automate. "I need these tools to ensure accuracy because I am on my own," she says. "The diagnostics in ProSystem fx Tax will point out things I might miss otherwise and will catch any errors. CCH Support has been extremely helpful, too."

This tax season, she plans to use ProSystem fx Scan with AutoFlow Technology to further streamline processing and help ensure accuracy. "It takes information directly from the W-2s without re-keying," Lewis says. Last season, she started going paperless, printing file copies to PDF instead of paper. "Scan and AutoFlow are the next step toward storing documents digitally." —John Hiatt ■

Investing in Technology Pays Dividends

Rita Lewis, EA, owner of the firm Dollars & Sense, has been able to increase revenue 44 percent over the past four years with CCH software solutions. The ability to handle more complex returns with ProSystem fx Tax has allowed her to "lose" most of the simpler, less profitable ones and keep her workload manageable. "I don't want my business too large for me to continue to touch each and every client," Lewis says.

Her advice to others thinking of going solo? First, don't be afraid to look at more complex software. "You can scrimp on your office furniture but not your software or your education," she says. Second, make sure you have a "virtual watercooler" where you can share ideas with others in the profession. "Whether you have people locally to have breakfast with or use an online message board, you need to network with real live people who know what you are going through."

Recent Tax Laws

- Tax Cuts & Jobs Act of 2017 (sunsets 12/31/2025)
- Bipartisan Budget Act of 2018
- Taxpayer Certainty & Disaster Tax Relief Act of 2019
- Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2020
- Coronavirus Aid, Relief & Economic Security (CARES) Act
- PPP Flexibility Act (PPPF)
- Families First Coronavirus Response Act (FFCRA)
- Emergency Paid Sick Leave Act
- Emergency Family & Medical Leave Expansion Act
- Consolidated Appropriations Act (CAA) of 2021 (5,593 pages)

Economic Impact Payments (EIP)

- aka Stimulus Check, new Stimulus Check, & Additional 2020 Recovery Rebate Payments
- Direct Deposits, Checks, & Debit Cards
- Phase Outs:
 - Married Filing Joint starts at \$150,000 Adjusted Gross Income
 - Head of Household starts at \$112,500 AGI
 - Single or Married Filing Separate starts at \$75,000 AGI

Economic Impact Payments

EIP1

- \$1,200 per taxpayer/spouse
- \$500 for each dependent under 17 years old (same rules as Child Tax Credit)
- Everyone needs Social Security Numbers
- Can be offset by back child support owed

EIP2

- \$600 per taxpayer/spouse
- \$600 for each dependent under 17 years old (same rules as Child Tax Credit)
- Either taxpayer or spouse needs a SSN & dependents need SSNs
- NO offsets
- Must go out by 1/15/21

2020 Recovery Rebate Credit (RRC)

- EIP1 & EIP2 are ADVANCES on 2020 Recovery Rebate Credit
- 2 separate credits are reconciled on a worksheet and enter the tax return as 1 number
- NOT income (NOT taxed)
- REFUNDABLE tax credit
- If qualified EIP1 & EIP2 exceed 2020 Recovery Rebate Credit, they are NOT required to be repaid
- If 2020 Recovery Rebate Credit exceeds what was received for EIP1 & EIP2, the RRC is refunded

Planning Tip #1

- If you file Married Filing Joint, look at Married Filing Separate
 - If together your AGI is over \$150,000 as MFJ
 - But one of you would have AGI under \$75,000 as MFS (taxpayer A)
- A now qualifies for RRC1 of \$1,200 + RRC2 of \$600
 - A receives \$1,800 refund
- Add a dependent to A's return
 - Another \$500 + \$600 = \$1,100
 - A receives \$2,900 refund
- Two dependents?
 - Another \$1,100
 - A receives \$4,000 refund
- Yes, MFS tax rates are more expensive than MFJ
- If you use a tax professional, you'll pay for two sets of tax returns
- But \$4,000!!

Charitable Contributions

- 2020: \$300 per return
 - 1040 instructions say \$150 for Married Filing Separate
 - Code does NOT specify MFS, so instructions might change
- Non-Itemizers ONLY
- Above the Line adjustment
 - Before the Adjusted Gross Income total
- Gifts of “cash”
 - Includes, checks, credit cards, Venmo, PayPal, etc.
 - NOT used clothes or household goods to Goodwill, etc.
- PENALTY for overstatement written into the law!!
- 2021 \$300 per taxpayer/spouse
 - \$600 for Married Filing Joint

Planning Tip #2

- Consider converting a Traditional IRA to a Roth IRA
 - In a year when your income is lower
 - In a year when the value of your IRA portfolio is lower

2021 Federal Income Tax Brackets and Rates for Single Filers, Married Couples Filing Jointly, and Heads of Households			
Rate	For Unmarried Individuals	For Married Individuals Filing Joint Returns	For Heads of Households
10%	Up to \$9,950	Up to \$19,900	Up to \$14,200
12%	\$9,951 to \$40,525	\$19,901 to \$81,050	\$14,201 to \$54,200
22%	\$40,526 to \$86,375	\$81,051 to \$172,750	\$54,201 to \$86,350
24%	\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,351 to \$164,900
32%	\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,901 to \$209,400
35%	\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,401 to \$523,600
37%	Over \$523,600	Over \$628,300	Over \$523,600

Source: Internal Revenue Service

Hobby Loss Rules

- Business vs. Hobby
- Facts & Circumstances
- SAFE HARBOR:
 - An activity is presumed for profit if it makes a profit in at least three of the last five tax years, including the current year
- Whether or not an activity is presumed to be operated for profit requires an analysis of the facts and circumstances of each case. Deciding whether a taxpayer operates an activity with an actual and honest profit motive typically involves applying the nine non-exclusive factors contained in Treas. Reg. § 1.183-2(b). Those factors are:

9 Factors

- 1. the manner in which the taxpayer carried on the activity, *[act like a business; keep books]*
- 2. the expertise of the taxpayer or his or her advisers,
- 3. the time and effort expended by the taxpayer in carrying on the activity,
- 4. the expectation that the assets used in the activity may appreciate in value,
- 5. the success of the taxpayer in carrying on other similar or dissimilar activities,
- 6. the taxpayer's history of income or loss with respect to the activity,
- 7. the amount of occasional profits, if any, which are earned,
- 8. the financial status of the taxpayer, and
- 9. elements of personal pleasure or recreation

Business Entities

TYPES OF BUSINESSES AND SOME OF THEIR FEATURES

TYPE OF BUSINESS	SOLE PROPRIETORSHIP	PARTNERSHIP	C CORP	S CORP ⁽¹⁾	LIMITED LIABILITY COMPANY ⁽²⁾
FEATURES					
UNLIMITED LIABILITY	YES	YES / NO ⁽³⁾	NO	NO	NO
SEPARATE LEGAL ENTITY	NO	YES	YES	YES	YES
PROFITS TAXED ONLY ONCE ⁽⁴⁾	YES	YES	NO	YES	YES
REQUIRES SEPARATE FILING	NO	YES	YES	YES	NO / YES
EASE OF ORGANIZATION	EASY	EASY-COMPLEX	MOD-COMP	MOD-COMP	MOD-COMP
TRANSFER OF OWNERSHIP	NO	NO	YES	YES	POSSIBLE
ABILITY TO RAISE CAPITAL	DIFFICULT	DIFFICULT	MODERATE	MODERATE	MODERATE

(1) S corporation status must be granted by the IRS.

(2) Limited liability companies are treated as sole proprietorships or partnerships (depending upon the number of owners) for federal tax purposes unless they elect to be treated as a corporation.

(3) Limited liability extends to limited partners only.

(4) Partnerships, S corporations and limited liability companies generally pay no taxes. Taxes are paid by the owners at the individual tax rate.

This is an overly simplified example. Consult with a professional to determine the type of business form which is best for your situation.

Paycheck Protection Program (PPP)

- The CARES Act created PPP Loans for 2020
 - PPP1 reopens Friday 15 January 2021
- The Consolidated Appropriations Act created PPP2 Loans
 - PPP2 opens Friday 15 January 2021
- PPP Loan funds are NOT income
- Expenses paid with PPP Loans ARE deductible
- Designed to cover payroll and a few select operating expenses
- Self-Employed/Independent Contractors/Sole Proprietors ARE eligible for PPP Loans to replace their net income (Schedule C)
- Administered by the Small Business Administration (SBA)
- However, work with your friendly local bank to apply for PPP Loans and to apply for PPP Loan Forgiveness

New Form 1099-NEC

- Form 1099-NEC is the new form to report people you paid for services rendered: Non-Employee Compensation
 - Form 1099-NEC is actually an old form that is brought back now
- Replaces Form 1099-MISC Box 7 Non-Employee Compensation
 - Form 1099-MISC still exists for all other Boxes, such as rent paid, but the Boxes have been renumbered
- Payments of more than \$600 in nonemployee compensation, including independent contractors, attorneys, and golden parachuted payments, will be reported on Form 1099-NEC Box 1
- Form 1099-NEC and Form 1099-MISC must be furnished to the recipient/payee by 1 February
- Form 1099-NEC must be filed with the IRS by 1 February
 - Form 1099-MISC must be filed with the IRS by 1 March if paper, 31 March if e-filed

Qualified Business Income Deduction (QBIID) or 199A

- Deduct up to 20% of Qualified Business Income (QBI)
- Qualified Trade or Business, including Self-Employed
 - NOT a C Corporation
 - NOT an employee
- Specified Services Trades or Businesses (SSTBs) have income thresholds
 - Health
 - Law
 - Accounting, Actuarial Science
 - Performing Arts – emphasis on Performing and adjacent activities
 - Consulting
 - Athletics
 - Financial Services, Investing & Investment Management, Trading, Dealing in certain assets
 - Any trade or business whose principal asset is the reputation or skill of one or more of its employees or owners
- SSTB Thresholds add to the computations
 - Amount of W-2 wages paid
 - Unadjusted basis immediately after acquisition (UBIA) of qualified property.
- Rental Real Estate
 - Safe Harbor
 - Can rise to a Trade or Business
- **Your tax preparation software or that of your tax preparer will make the computations**
 - **But you may need to answer questions about the type of business you are in**

Payroll Credits

- Yes, for the Self-Employed, also, not just payroll
 - Independent Contractor/Sole Proprietor/Schedule C
- All Payroll Credits, except Employee Retention Credit (ERC)
- Form 7202 for SE Payroll Credits
 - Net earnings divided by 260 days
 - Use 2019 **OR** 2020 earnings
- Credit against Self-Employment Tax owed
- Refundable
- 2020
- Extended to 31 March 2021

Business Deductions

- Office In Home (OIH)
 - Regularly & Exclusively
- TAX HOME
- MILEAGE
 - Mileage Log: who, what, when, where, & why
 - MileIQ and other smart phone apps
- MEALS: Log detailing BUSINESS purpose, who, what, when, where, & why
- CAPITAL PURCHASES
 - Depreciation
- OTHER DEDUCTIONS
 - What do YOU want to track?
-
- DOCUMENT all deductions in two ways
 - Bank Record/Credit Card Statement of expenditure
 - Receipt/Invoice documenting business purpose
- **Usual & Necessary**
- Need to split deductions between two or more jobs?
 - The IRS says, “Any reasonable method”
 - Amounts earned or time spent or...

Musicians' Deductions

- Musicians are allowed to deduct all expenses incurred to earn income. This list doesn't give every allowable deduction for the self-employed, but it should give you an idea of some special ones for musicians.
- Accounting, legal, and consulting fees
- Musical instrument repairs: new reeds, ligatures, pads, accessories, etc.
- Music supplies, sound equipment
- Union and professional dues; business taxes and licenses
- Salaries (e.g. accompanist, copyist, substitute, agent's commissions)
 - *[issue Forms W-2 &/or 1099-NEC]*
- Cost of videotaping or recording performances for preparation or presentation
- Cost of *special* make-up and hair-styling (performing artist only)
 - IF NOT SUITABLE FOR STREET WEAR
- Meals (limited to 50%)
 - New from CAA for **2021**: 100% IF PROVIDED BY A RESTAURANT
- Advertising and publicity, including photographs and other materials sent to news media and producers
- Insurance premiums on equipment and instruments
- Telephone expenses, *with restrictions*
- Concert clothing, cleaning, and alterations
 - IF NOT SUITABLE FOR STREET WEAR
- Music lessons, training courses (board, lodging, tuition)
- Subscriptions to industry related periodicals

Deductions, *continued...*

- Depreciation can be claimed on instruments, sheet music, scores, arrangements, transcriptions, office furniture, recordings, automobiles, and computers, to the extent that they are used for business purposes (You can also use Bonus Depreciation to immediately expense assets or elect to take the Section 179 Deduction but can't use this deduction to create a business loss)
- Bank charges on a business account, interest expenses on a business loan
- Convention expenses
- Delivery, express, freight
- Equipment rental
- Office expenses (postage, stationary, telephone)
- Self-employed health insurance deduction on Form 1040
- Office or studio in the home, including a portion of expenses for mortgage interest, rent, insurance, repairs or maintenance, heat, other utilities, and property taxes (this deduction can't be used to create a business loss but does carry forward)
 - Simplified OIH deduction
- Auto expenses, including your business percentage of expenses for insurance, repairs and maintenance, license fees, gas and oil, car washes, loan interest, auto club membership, and parking
 - You may elect to use the standard mileage rate and still deduct personal property taxes on motor vehicles and parking fees
 - **MILEAGE LOG**

Issuing Form W-2 & 1099-NEC

- Get Form W-4 or W-9 BEFORE paying anyone
- Use your EIN instead of SSN
 - Form SS-4 online
- Forms W-2 & 1099-NEC from same company to same worker is a red flag!
- Forms W-2 & 1099-NEC are due to the recipient/payee AND to the IRS 1 February

Business Income

- ALL Worldwide Income earned in the course of your business
 - Checks
 - Cash
 - Charges
 - PayPal/Venmo/etc.
 - Barter
 - Bitcoin/virtual currency
- Paper Trail
- EIN instead of SSN
- KICKSTARTER
 - Income or Gift?
 - Facts & Circumstances

Planning Tip #3

- All taxpayers now eligible for Identity Protection PINs (IP PIN)
 - Taxpayers, Spouse, and Dependents
- You must obtain a new IP PIN each filing season
- [IRS.gov/IPPIN](https://irs.gov/ippin)
 - Get an IP PIN tool

Questions?

- RitaLewis@DollarsSense.com
- Tax Info on the Web: www.DollarsSense.com