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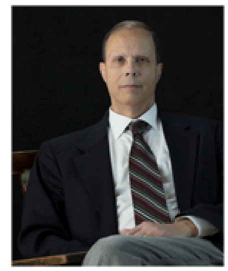

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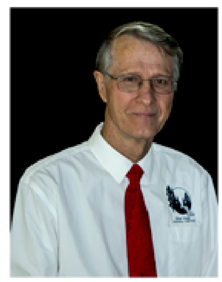

Conley Didier
Reviewer

Justin Bird
Accountant

GREETINGS FROM OUR ALL-STAR TEAM

Thank you for allowing us to prepare your income tax return. As we begin our 44th year, we value you and remember we are only here because of you, our client.

I am so proud of each and every one of the fine professionals pictured above who choose to work at Silver Creek. Each of them has the required skills we demand: they enjoy working with people, they enjoy learning, they are loyal to each other and Silver Creek, they are honest, they respect our clients privacy, and they want to serve you. They could choose to work at many places, and yet willingly show up at Silver Creek! I am so blessed to get to work with all of them.

With COVID-19 still with us, we are offering several ways to meet with you. We can meet in person, interview over the telephone, or set up a video conference system we use via the computer. When you call for an appointment, we will ask which way you wish to interact with us. By using email, scanning, US Postal mail, electronic signatures, and personal delivery of documents, we can accommodate your needs.

Eric Arnoldus has moved his La Grande office. He is now located at 2106 Cove Avenue with Prosper Business & Tax Services. If you are one of Eric's clients and wish to meet with him in La Grande, please call (541)910-8304.

This newsletter is longer than in prior years. This reflects the many tax law changes that have happened. This is a brief description of the major items you may be interested in. As always, we are here to help, to answer questions, to obtain needed information, and prepare an accurate income tax return for you. >>Cathy

WHAT IS ENCLOSED IN THIS MAILING

We are enclosing either an update form **or** an organizer with this letter. We are also enclosing an engagement letter for our services for you to review and sign if acceptable to you. Please note the short list of items you will need to provide, if you have them. If you did not receive an organizer and want one, please call us and we will get one to you right away.

2020—OH MY!

As the country was dealing with the Coronavirus Pandemic, Congress was busy passing legislation. There were three major bodies of law passed from March through the end of December. We have been busy keeping up with all the new laws, then changes to the law, and then more changes again. Here are some of the major provisions of 2020 legislation.

Cash Charitable Contributions For 2020, taxpayers who are not able to itemize are allowed to deduct up to $300 in cash charitable contributions as an adjustment to gross income.

Earned Income Tax Credit and Child Tax Credit Taxpayers can use their 2019 income for calculating both the earned income tax credit and the child tax credit if their 2020 income is lower. Of course, this choice is only made if it benefits the taxpayer.

Economic Impact Payments (Stimulus) Most individuals received $1,200 per person and $500 per child under 17 earlier in 2020. A second round of stimulus payments are due now of $600 per person, including children under 17. Legislation for yet a third stimulus payment has not been determined if they will be issued and if so, the amount. The current proposal is for $1,400.

These payments are not taxed as income in 2020, but are reconciled on the 2020 income tax return. This enables a qualifying taxpayer who has not received a stimulus payment to obtain one.

These payments are limited when married taxpayers' income exceeds $150,000 ($75,000 for single and married filing separate, $112,500 for head of household). The payments are reduced by 5% for income over these limits.

If a taxpayer's income exceeded these levels in 2018 and 2019 they would not have received a payment. However, if their income is below these levels in 2020, they could receive a payment on their 2020 income tax return. If a taxpayer was below the levels in 2019 and they received a payment but their income was too high in 2020, they get to keep the payment.

In the case of unmarried or divorced parents who alternate claiming children under the age of 17 (the mother claims the children in 2019 and the father claims them in 2020), both will qualify for the payments as long as they meet the income criteria.

Notice 1444 was mailed to all taxpayers who received the first stimulus payment. Please provide this form to us if you have it.

Taxpayers who receive the first stimulus payments on behalf of those who are deceased before the payment is received are required to return those payments to the IRS. The second payments will not be issued to those who passed prior to 1/1/2020. They will be issued to taxpayers who died in 2020.

Economic Injury Disaster Loans (EIDLs) - These are non-taxable payments made to businesses of up to $10,000. The use of these funds was to be for such business expenses as payroll, inventory, supplies, rent, utilities, and accounts payable. With the legislation passed December 27, 2020, the expenses that were paid with these funds are now deductible.

Educator Expenses—K-12 teachers, counselors, principals, and aides who work at least 900 hours can deduct their out-of-pocket expenses they have for classroom supplies, computer software, professional development, and now personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of COVID-19.

Employee Retention Credits were first granted in March, 2020. The credit is given to the employer through payroll tax reductions to reimburse the employer for 50% of wages paid to employees during a time of business suspension. The latest legislation extends these credits through June 30, 2021 and increases the qualifying wage level as well as making the credit 70% instead of 50%.

Family First Coronavirus Aid, Relief, and Economic Security Act (FFCRA) Employers are reimbursed for wages they pay to employees who are ill due to COVID-19, unable to work because of quarantine or isolation orders, unable to work due to caring for children who are unable to attend school or daycare due to COVID-19 closures, or who experience symptoms similar to COVID-19.

Similar credits can be taken on a self-employed person's tax return if they experience similar situations. This is a 100% credit of applicable income which could make a large difference in a self-employed person's return if they qualify.

Payment Protection Program Loans (PPP) Employers were able to apply for PPPs through banks. These monies were paid to employers and had to be used for certain expenses while maintaining employment levels. These rules have changed with all three of the major pieces of legislation.

As long as at least 60% of the funds were used for wages, retirement and health insurance costs within 24 weeks of the loan with no more than 40% spent on business interest, rent, and utilities, AND the wage and employment levels were maintained at pre-COVID-19 levels, the loan can become a grant. Forgiveness can happen after an application is submitted to the bank. Once the bank approves the forgiveness, the application is sent to the Small Business Administration who can add their approval. If this didn't happen, the loan is repayable at either 1% over two years or five years, depending upon the date the PPP was granted.

There are MANY rules regarding qualifying expenses, determination of the employment and compensation level tests, and preparation of the forgiveness application.

The PPP is not taxed. The expenses paid with the funds are also fully deductible.

Flexible Spending Accounts Employers can choose to extend the time limit to spend 2020 monies for health and dependent care expenses through 2021.

Unemployment Benefits were supplemented in time and amount, first $600 for up to four months, now an enhanced $300 for up to 11 weeks. This expires in mid-March 2021.

Electronic Filing Begins on January 27. The IRS has said this is the first day we can electronically file income tax returns. Currently, the filing deadline for individual tax returns has returned to April 15 in 2021. Taxpayers with earned income and additional child tax credits are going to have their refunds delayed until mid-February.

2020—The Year of The Never Ending Tax Season! The April 15th filing deadline was extended to July 15th in 2020. We have no indication this will be true for 2021.

Then, the IRS gave an extension until January 15, 2021 to taxpayers who were victims of the Oregon wildfires and straight-line winds that began on September 7, 2020. Currently, this includes Clackamas, Douglas, Jackson, Klamath, Lane, Lincoln, Linn, and Marion counties in Oregon. This includes those who live in those counties, taxpayers whose necessary tax records are in these counties, and workers assisting in relief activities affiliated with government or philanthropic organizations.

1099s and W-2s are required to be electronically filed by February 1, 2021. IRS has added a new form to it's arsenal of forms—the 1099-NEC. This form is used to report income paid to service providers. The IRS imposes penalties when these forms are not filed timely. Oregon can completely deny deductions when appropriate 1099s are not filed. We are always happy to help with filing these forms.

The **standard deductions** are increased to $24,800 for married filing jointly, $18,650 for head of household, $12,400 for single and married filing separately, and $1,100 for dependents.

The **standard mileage rate** decreased to 57.5¢ for 2020 (56¢ for 2021). The medical mileage rate is 17¢ in 2020 (16¢ for 2021). The charitable mileage rate remains at 14¢.

IRA contribution limits remain the same in 2020. Qualifying individuals can contribute $6,000 with an additional $1,000 for those taxpayers 50 and older.

New Retirement Plan Law now allows taxpayers with earned income of <u>any age</u> to contribute to traditional IRAs. **Required minimum distributions** are now required in the year taxpayers reach **age 72** instead of the year after they attain age 70.5. The first payment can be delayed until April 1 of the year after the minimum age was attained. If this choice is made, the retiree would be required to take a second distribution in that same year. Taxpayers who are already 70.5 are required to continue with their required minimum distributions. **Non-spousal beneficiaries** can no longer spread new distributions beyond **10 years**. Formerly, they were able to spread them over their lifetime. **Qualified birth or adoption distributions** of up to $5,000 per child from IRAs and electing 401(k)s are taxable, but not subject to the 10% early withdrawal penalty. These adoptions are not those adopting a child of the spouse (step-child). The child must be under 18 or physically or mentally incapable of self-support.

The special provision in the law which allows **taxpayers who are required to take distributions** to have distributions made directly from their IRA trustee to a charitable organization has been modified. This type of transfer meets the required minimum distribution requirements and voids taxation of the distribution. However the preferential tax treatment of the IRA to charity transfer has to be reduced by any deductible traditional IRA contributions made after the taxpayer is required to take minimum distributions. This reduction is tied to the ability for all qualifying taxpayers to make traditional IRA contributions, regardless of age.

There were no <u>required</u> minimum distributions in 2020.

One last change regarding IRAs and most retirement plans, taxpayers who are impacted by having COVID-19 or experiencing adverse financial consequences as a result of being quarantined, furloughed, lost employment, reduced work hours, unable to work due to lack of child care can withdraw up to $100,000 with no 10% early withdrawal penalty. They are also allowed to choose to pay the income tax over the next three years. Another choice the taxpayer can even choose is to repay the funds back to the retirement account within three years and not pay any income tax.

Medical expenses are subject to a floor of 7.5% of adjusted gross income. This floor has now been made permanent.

All **state and local taxes** continue to be limited to a maximum deduction of $10,000.

Only **Home mortgage interest deductions** on acquisition debt is deductible. This is the debt incurred to buy, build or improve the home. The debt must also be secured by that home.

Miscellaneous itemized deductions continue to be non-deductible. This category includes such things as unreimbursed employee business expenses, tax preparation fees, investment advisory fees, union dues, safe deposit box fees.

Qualified **529 Plan distributions** can now be used for the normal expenses for fees, books, supplies and equipment required for **apprenticeship programs** certified by the Secretary of Labor, and **homeschooling**. Up to $10,000 of each taxpayer's Qualified 529 plan distributions can be used to **repay an education loan** of the taxpayer or a sibling! This is a lifetime limit per taxpayer.

Failure to file fees remain the same this year. They are the lesser of $435 or 100% of the amount of tax due. There are no penalties if the return shows a refund. However, an income tax return must be filed within three years of the filing deadline to receive the refund.

Net operating loss (NOL)carrybacks are now allowed for all taxpayers for tax years 2018, 2019, and 2020. The NOL is carried back five years, then carried forward indefinitely. Taxpayers can elect to forego the carryback period and carry the NOL forward only. This election is required on a timely-filed return. Since this law changed after most of the 2018 and 2019 returns were filed, we are allowed to make this election to carry the NOL forward only on the 2020 tax return (unless it was done earlier). Another change is these NOLs will now offset up to 100% of other income.

EXTENDED PROVISIONS

Most of the provisions called extenders have been extended through 2021 by Congress. Here are some details:

Mortgage insurance premiums are deductible as itemized deductions for 2020 and 2021.

Cancellation of qualified principal residence indebtedness of up to $2,000,000 is not subject to income tax through 2020. Up to $750,000 is not subject to tax in 2021 through 2025.

Tuition and fees deduction is allowed through 2020, but has been repealed going forward. College expenses that are used for either the Lifetime Learning Credit or the American Opportunity Credit cannot also be used for the tuition and fees deduction.

Volunteer first responder benefits are excluded up to $50 per month. Any excluded amounts reduce any out-of-pocket expenses that are deducted as a charitable itemized deduction. This is now a permanent provision.

Nonbusiness energy property such as qualifying windows, doors, and insulation will again receive a 10% tax credit. The total credit that can be taken for expenditures taken through recent years cannot exceed the $500 lifetime limitation ($200 for windows) . This provision has been extended through 2021.

OREGON CHANGES

Corporate Activity Tax 2020 is the first year of Oregon's new sales tax called the CAT. It is imposed on all businesses doing business within Oregon (not just corporations) which have sales in excess of $1 million. Businesses are required to register within a month of when their sales reach $750,000. The tax is only assessed when the $1 million mark is reached and is $250 for the first $1 million, then .57% for income above that level. The income is reduced by 35% of the cost of goods sold or labor, whichever is larger. Some of the sales which are exempted from the CAT are groceries, motor vehicle fuel, sales tax collected for another taxpayer (such as an agent), and capital assets. There are many rules on this new provision.

Due to CAT, the 2020 personal income tax rates have been reduced by .25% for all brackets except the 9.9% bracket.

Employees are required to complete an **Oregon W-4** beginning in 2020.

The **special medical deduction** is now limited to taxpayers who are 66 and older. This age has been advancing in the past by one year every other year. Under current rules, it will now remain at age 66.

Federal Income Tax Deduction may be reduced by the amount of the Stimulus Payments received. If the taxpayer's federal tax reduced by the stimulus payments received is still more than $6,950 ($3,475 for married filing separate returns), the full federal income tax deduction is allowed. Otherwise the net of the federal tax less the stimulus payment will yield the deduction for Oregon.

COMING UP FOR 2021

100% Deductible Meals—Business meals purchased from restaurants during 2021 and 2022 are 100% deductible, instead of the 50% deductible level in 2020.

Cash Charitable Contributions For 2021, taxpayers who are not able to itemize are allowed to deduct up to $600 in cash charitable contributions. In 2022, this item becomes an addition to the standard deduction.

Flexible Spending Accounts Employers can choose to extend the time limit to spend 2021 monies for health and dependent care expenses through 2022.

WHO PAYS INCOME TAXES?

We often hear the comment the rich don't pay any income taxes. Statistics say otherwise. Based on 2018 tax returns, those in top 1% of income paid 40.08% of the tax, those in the top 5% of income paid 60.3% of the tax, those in the top 10% paid 71.4% *of the tax. Those in the bottom 50% of income paid only 3% of the income taxes paid into our government.*

MILEAGE DEDUCTION INFORMATION

If you claim auto deductions for business, medical or charitable purposes, please use the 2020 Mileage Deduction Information form included with this letter. As preparers, we continue to be required to verify that the taxpayer has written documentation for mileage expenses.

A mileage log needs to record the beginning and ending odometer readings for the year, as well as the number of business miles driven each day and the business purpose of these travels. This information needs to be recorded close to the time of the travel. We have calendar books for your use. If you haven't received one yet and would like to, just contact us and we will get one to you.

HOW TO HANDLE AN IRS OR STATE LETTER

First of all, don't panic. Simply responding to most notices will resolve the situation. Secondly, don't ignore the letter. Each letter deals with a specific issue and contains some instruction on what to do. Be sure to respond timely. If the letter makes changes to the originally filed return, be sure to look at the changes to make sure they are correct. Just because the government thinks the changes are accurate, does not mean they are. Always keep copies of the letter and your response. The IRS and Oregon will never initiate contact using social media or text messages. They also will not call on the telephone unless you have already had regular mail correspondence. *We are always here to help, and can perform all these jobs for you. Just let us know.*

PRIVACY ACT NOTICE

Under the Gramm-Leach-Bliley Act of 1999, tax advisors and accountants (among others) are required to notify their individual customers of their privacy policies. We do not share nor disclose any information about any of our customer's nonpublic personal information to any non-affiliated third parties without prior consent. In other words, we do not sell any of your information to anyone. We collect only the information that is required to prepare a complete and accurate income tax return for our income tax clients, or a complete and accurate set of books for our accounting clients. We maintain appropriate physical, electronic, and procedural safeguards to protect the security and confidentiality of your nonpublic personal information. All of us at Silver Creek Financial Services are educated about the terms of this notice and the importance of customer privacy. We restrict access to nonpublic personal information about you to those employees who need to know that information to provide the service you have requested. **YOUR PRIVACY IS IMPORTANT TO US AND VITAL TO THE CONTINUATION OF OUR BUSINESS!**

Thank you for taking the time to read this newsletter. If you have any questions regarding any of the items in this newsletter, please call us. We are here to help you.