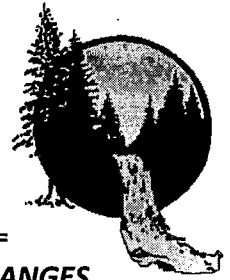


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CHANGES, ALWAYS CHANGES

GREETINGS

We hope you had a restful and blessed holiday season. It is now time to turn our energies toward preparing another round of tax returns.

We have a couple of changes to our staff this year. One of the two faces you see when coming through our door will be different this year. After six seasons with us, Karen Wurdinger has retired. Pam Diggins has joined our staff and is looking forward to her first tax season. Our other change is that Melissa Wight has reduced her hours to two days a week, working in the office most Mondays and from home the rest of her working hours.

We are also trying pre-arranged tax appointments this year. If you normally have an appointment during tax season, we have scheduled an appointment for you at about the same time as your appointment was last year. You will soon receive (or have received) a postcard providing information about this appointment. If the appointed time does not work, just call us and we will reschedule to a time that does work for you.

Other than these changes, it is business as usual. Because of our workload, we have decided to not accept new clients this year, unless there is an association with a current client or prior arrangements have been made. We hope to again be able to welcome new clients next year.

We value you and look forward to working with you soon. >>Cathy & Crew

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 shortlist of items you will need to provide if you have them. If you did not receive an organizer and would like one, please call us and we will get one to you right away.

So far, we do not have the enormous number of changes we have had in the last two years, and yet, there are some changes. Please read the following areas that are of interest to you and call us with any questions you may have.

Cash Charitable Contributions For 2021, married filing joint taxpayers who are not able to itemize are allowed to deduct up to \$600 in cash charitable contributions in addition to the standard deduction. All other filing statuses are allowed to deduct up to \$300 in cash contributions.

Economic Impact Payment (Stimulus) Most individuals received \$1,400 per person in the third stimulus payment during March-May 2021.

This payment is not taxed as income in 2021 but is reconciled on the 2021 income tax return. This means that if a taxpayer didn't qualify for this third stimulus payment in 2020 because income was too high, but does qualify in 2021, they are allowed the credit on their 2021 income tax return.

These payments are limited when married filing jointly 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% of the income over these limits.

This third stimulus payment covers both spouses and all dependents. In the case of unmarried or divorced parents who alternate claiming children (i.e. the mother claims the children in 2020 and the father claims them in 2021), both will qualify for the payments as long as they meet the income criteria. Taxpayers who died before 1/1/2021 do not qualify for this payment.

Letter 6475 will be mailed to all taxpayers who received this third stimulus payment by the end of January 2022. Please bring in this letter so we can make sure your 2021 tax return is accurate.

100% Deductible Business Meals. For 2021 and 2022 business meals provided by a restaurant are fully deductible. For the last several years, these

meals have only been 50% deductible. A restaurant means a business that prepares and sells food or beverages to retail customers for immediate consumption.

Child Tax Credit Has Been Increased from \$2,000 per child under 17 in 2020 to \$3,600 for children under six and \$3,000 for children six to under eighteen. There is an income limitation to the Child Tax Credit: Married Filing Joint \$150,000, Married Filing Separate and Single \$75,000, and Head of Household \$112,500.

Advance Child Tax Credit payments began in July for most taxpayers who qualified. The stated purpose of these payments was to reduce child hunger. One-twelfth of the annual payment (\$300 for children under six and \$250 for children six to under eighteen) was issued each month from July through December. There was a portal on the IRS website which taxpayers could use to update information and suspend payments.

These advance payments now will reduce the Child Tax Credit on the 2021 income tax return. For example, let's say we have a family with two children, one age 4 and one age 7 with an adjusted gross income of \$50,000. They received monthly advance child tax credit payments of \$550. Their child tax credit would be \$6,600 on their tax return reduced by the advance payments of \$3,300 (\$550 x 6), which results in a net credit of \$3,300. In 2020, this same family would have had a child tax credit of \$4,000. Therefore, you can see even though the balance on the 2021 tax return is less than what it was on the 2020 return, there were six payments of \$550 the family received.

There will be cases where the monthly advance child tax credit payments will exceed the child tax credit. In these cases, the difference will increase the tax calculated on the tax return. Lower-income taxpayers, read the "Repayment Protection Levels" section next.

The IRS will send out a **Letter 6419** to all taxpayers who have received monthly advanced child tax credit payments by January 31, 2022. Please bring this letter to us so we can make sure we prepare an accurate tax return.

Repayment Protection Levels have been established to protect against lower-income taxpayers repaying these monthly advance child tax

credit payments when they experienced a change in the number of qualifying children claimed from 2020 to 2021. The income levels for full repayment protection are Married Filing Joint and Qualifying Widow/Widower \$60,000, Married Filing Separately and Single \$40,000, and Head of Household \$50,000. Partial repayment protection extends to Married Filing Joint and Qualifying Widow/Widower \$120,000, Married Filing Separately and Single \$100,000, and Head of Household \$80,000.

The Dependent Care Credit has been increased to a maximum of 50% of \$8,000 for one child and \$16,000 for two or more children of daycare expenses for taxpayers whose adjusted gross income is under \$125,000. The 50% credit limit is reduced as the adjusted gross income increases until it is 0% when the adjusted gross income reaches \$438,000. This is a huge expansion from past years.

Dependent Care Benefits have also been expanded in 2021 only from \$5,000 to \$10,500. This is the amount that can be deferred through cafeteria plans to reduce wages and used for child care.

A New S Corporation Reporting Form 7203 is on the scene this year. More information will be required on the shareholder's individual tax return regarding stock basis, loan basis, loan balances, as well as allowed and suspended losses. If you are a shareholder in an S Corporation, and Silver Creek does not prepare that S Corporation return, we will need a Shareholder's Basis schedule to provide the required information to accurately prepare the new Form 7203.

Electronic Filing is projected to begin on January 31. The IRS can delay this by another week if they deem it necessary. Refunds on returns with earned income tax credits and child tax credits may be delayed until March to give the IRS time to verify the credits. The filing deadline for individual tax returns is April 18, 2022. Because of travel plans made months ago when the filing deadline was reported to be April 15, most of our staff will be leaving for Hawaii on April 16, so our filing deadline remains April 15.

1099s and W-2s are required to be electronically filed by January 31, 2022. 1099s are used to report sub-contract labor, interest paid to non-corporate lenders, and rents. 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 \$25,100 for married filing jointly, \$18,800 for head of household, \$12,550 for single and married filing separately, and \$1,100 for dependents.

The **standard mileage rate** decreased to 56¢ for 2021 (58.5¢ for 2022). The medical mileage rate is 16¢ in 2021 (18¢ for 2022). The charitable mileage rate remains at 14¢.

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 these expenditures cannot exceed the \$ 500-lifetime limitation (\$200 for windows). At this point, this provision ended on December 31, 2021.

Medicare Premiums Increase from \$148.50 per month in 2021 to \$170.10 per month in 2022. Taxpayers who had 2020 modified adjusted gross income above certain levels are required to pay higher Medicare premiums in 2022. These levels are Married Filing Taxpayers above \$182,000 and Single taxpayers above \$91,000. The higher the income, the higher the Medicare premium that will be charged.

OREGON CHANGES

Tax Kicker. Every other year, Oregon can have a kicker when there is a tax surplus of at least 2%. A tax surplus happens when the actual Oregon revenue exceeds the forecasted revenue. This year we will have quite a large kicker of 17.341% of 2020's Form 40 Line 22. This is modified if there was a credit for taxes paid to another state.

The Federal Income Tax Deduction may be reduced by the amount of the Stimulus Payment received. If the taxpayer's federal tax reduced by the stimulus payments received is still more than \$7,050 (\$3,525 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 federal tax deduction for Oregon.

COMING UP FOR 2023

Lowered 1099-K Filing Requirements. 1099-K forms are filed by third-party payment networks such as credit card companies, PayPal, Venmo, Cash App, and Zelle. The filing limit before 2023 is at least \$20,000 and 200 transactions. This drastically changes in 2023 when the filing requirements change

to total sales of at least \$600. This means taxpayers who sell things over eBay or transfer money through Venmo will have income reports filed with the IRS. This will require a reconciliation to be made on that taxpayer's tax return.

MILEAGE DEDUCTION INFORMATION

If you claim auto deductions for business, medical or charitable purposes, please use the 2021 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. We are always here to help and can perform all these jobs for you. Just let us know. If you wish to handle the letters yourself, here are some tips. 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.

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.

PRIVACY ACT NOTICE

Under the Gramm-Leach-Bliley Act of 1999, tax advisors and accountants (among others) are required to notify their 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!