Tax & Business Alert

DECEMBER 2021

BUDGETING FOR BABY

Babies bring joy and excitement. They also bring substantial adjustments to the family budget! In a September 2021 article, news provider U.S. News and World Report found that, after adjusting for inflation, it costs about $267,233 in 2021 dollars to raise a baby to age 18 based on previously published Bureau of Labor Statistics data. That's a daunting number, to be sure. Fortunately, there are some things you can do to, shall we say, pacify the challenge.

CHECK YOUR INSURANCE

Life and disability insurance are critical. Life insurance provides financial protection if an income-earner in your family dies. Term insurance can be a cost-effective option. It offers protection for a specific period — say, 20 years — at which point many children will be relatively self-sufficient, and the loss of income less harmful. Of course, you'll also need to ensure that your will names a guardian to look after your children in case of your death while they're still minors.

Disability insurance provides financial protection if a breadwinner becomes disabled and no longer can earn a living. While some employers offer disability insurance, the policies often don't provide enough income to cover all expenses. And Social Security disability benefits might not offer the protection you expect. For instance, to obtain the benefits, the breadwinner typically must be unable to work at any job. So, consider purchasing your own policy that will pay if you can't continue in your current job. The distinction might make a difference.

REVIEW TAX BREAKS

Eligible parents can receive a valuable Child Tax Credit. And if you pay a caregiver to watch your baby so you can work, you may be able to claim the dependent care credit. Depending on your income, this can be up to 50% of eligible childcare expenses, up to $8,000 for one child, or $16,000 for two or more. The caregiver typically can't be a dependent, your spouse or a parent of the child.

Another option is a dependent care Flexible Spending Account (FSA). This is an employer-sponsored program that allows parents to set aside up to $10,500 (for 2021) pretax annually (up to $5,250 if you're married and file separately) to cover qualified

START SAVING FOR COLLEGE EARLY

The sooner you start saving for your baby's education, the more you can leverage the value of monthly compounding. If you save $200 per month starting at your baby's birth and earn a 6% return, you'll have nearly $78,000 in 18 years!

One of the best options, potentially, is a Section 529 education savings plan. It allows you to save for college expenses, as well as K-12 tuition expenses. Contributions aren't tax-deductible for federal purposes, but many states offer tax benefits. Withdrawals used for qualified education expenses (limited to $10,000 per year for K-12 tuition) aren't subject to federal income tax, and typically not subject to state income tax.

childcare expenses. It's important to note that you can't use both the credit and the FSA for the same expenses.

GET EXPERT ADVICE

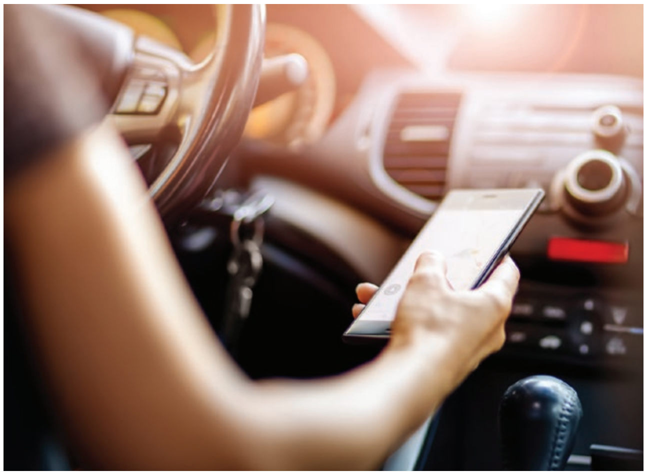
You'll want to reduce financial worries before your baby's arrival, as you'll be pretty tired immediately afterward. We can offer advice to help you evaluate various options and manage your finances. That way, your family will start, and build, on a solid economic foundation. ■

GIG WORKERS: HERE COMES AN ESTIMATED TAX DEADLINE

If you're a gig worker or otherwise self-employed, and you don't have taxes withheld from a paycheck, you likely have to make quarterly estimated tax payments to the IRS. Be advised that the fourth quarter 2021 estimated tax payment deadline for individuals is coming up on Tuesday, January 18, 2022.

A PAY-AS-YOU-GO SYSTEM

Even if you do have some withholding from paychecks or payments you receive, you may still have to make estimated payments if you receive other types of income such as Social Security, prizes, rent, interest and dividends. If you fail to make the required payments, you may be subject to an underpayment penalty as well as interest.



Generally, you need to make estimated tax payments for 2021 if you expect to owe at least $1,000 in tax after subtracting tax withholding, deductions and credits, and you expect withholding, deductions and credits to be less than the smaller of 90% of your tax for 2021 or 100% of your 2020 tax. (The applicable amount is 110% if your 2020 adjusted gross income was more than $150,000, or $75,000 for married couples filing separately.)

Sole proprietors, partners and S corporation shareholders generally must make estimated tax payments if they expect to owe $1,000 or more in tax when filing a tax return.

QUARTERLY DUE DATES

If you're new to estimated tax payments, be prepared to submit them throughout the year. The due dates are typically April 15, June 15, September 15 and January 15 of the following year. However, if the date falls on a weekend or holiday, the deadline is the next business day.

Estimated tax is calculated by factoring in expected gross income, taxable income, deductions and credits for the year. The easiest way to pay estimated tax is electronically through the Electronic Federal Tax Payment System. You can also pay estimated tax by check or money order using the Estimated Tax Payment Voucher, or by credit or debit card.

SEASONAL BUSINESSES

Most individuals make estimated tax payments in the four installments. You simply determine the required annual payment, divide the number by four and make four equal payments by the due dates.

However, you may be able to make smaller payments during some quarters under an "annualized income method." This can be useful to people whose income isn't uniform over the year, perhaps because of a seasonal business. You may also want to use the annualized income method if a large portion of your income comes from capital gains on the sale of securities that you sell at various times during the year.

THE CORRECT AMOUNT

Estimated tax payments are just like paying a traditional tax bill in that you want to fulfill your obligation without overpaying the federal government. Contact our firm with any questions you may have about setting up estimated tax payments or using the annualized income method. ■

APPRAISALS AREN'T JUST FOR BUSINESSES ANYMORE

Whether you're in the process of making a retirement or estate plan, or intend to donate property to charity, you'll need to know the value of your assets. For many hard-to-value items — such as closely held business interests, real estate, art or collectibles — an appraisal may be necessary.

RETIREMENT AND ESTATE PLANNING

To enjoy a comfortable retirement, you'll need to calculate the income that can support your lifestyle when you reach your desired retirement age. This means understanding the assets you have and appraising their value. Once you have this information, you may decide to move your retirement date up — or back.

Knowing the value of your assets is the only way to tell whether you're potentially subject to estate or gift taxes and to identify appropriate estate planning strategies for minimizing or eliminating those taxes. In addition, understanding the value of your assets enables you to distribute your wealth fairly. For example, suppose you wish to divide your overall property equally among your children, but with different items going to each. That's nearly impossible to do without appraisals of hard-to-value assets.

Appraisals may also be necessary to avoid running afoul of tax basis consistency rules. According to these rules, the income tax basis of inherited property equals the property's fair market value as finally determined for estate tax purposes. The rules are intended to prevent your heirs from arguing that your estate undervalued the property, thus entitling them to claim a higher basis for income tax purposes. Appraisals can help ensure that your heirs receive the basis they deserve.

GIFTS AND CHARITABLE GIVING

Generally, the IRS has an unlimited amount of time to challenge the value of gifts for gift and estate tax purposes, unless they're "adequately disclosed." If they're adequately disclosed, the IRS is bound by a three-year statute of limitations. The best way to disclose the value of a gift is to include a qualified professional appraisal with a timely filed gift tax return.

Charitable gifts of property valued at more than $5,000 (other than publicly traded securities) must be substantiated with a qualified appraisal by a qualified appraiser. This means that the appraiser meets certain education and experience requirements.

KNOW WHAT YOU HAVE

Without appraisals of your hard-to-value assets, it's difficult to develop a realistic financial plan, treat your heirs fairly and avoid unwelcome tax liabilities. Asset values can fluctuate dramatically over time, so make sure you get updated appraisals periodically. ■