Setting Sail
First Quarter 2022

Happy New Year! Welcome to Tax Season.

As we close the books on 2021 and start the journey of 2022, you may have noticed more than a few advertisements for weight loss programs and tax filing services. Yep, it's that time of year again. Filing taxes can be a big project as we gather the correct documents, search for, and meet with accounting professionals or even fill out the forms ourselves with tax preparation software. The IRS estimates that the average taxpayer spends 13 hours preparing their tax return. Here are some of the deadlines, documents, and figures to consider this tax season.

Deadlines to receive tax forms

You may already have received some of your tax forms in the mail or electronically. Most have a due date of January 31st

January 31st

- W-2 for wages earned from your employer.
- 1099-DIV for dividends earned on investments in non-retirement accounts.
- 1099-INT for interest earned from bank accounts and investment accounts.
- 1099-R for retirement income such as IRA distributions, annuities, and pensions.
- 1099-SSA for Social Security benefits.
- 1098 for mortgage interest paid. This will also include property taxes paid through the escrow account of your mortgage, if applicable.
- 1098-T for college tuition and fees paid.
- 1099-NEC for non-employee compensation.
- Payments for Advanced Child Tax Credits for payments made from July-Dec of 2021. These documents were sent to some taxpayers in December after their final payments were made and should be finished by the end of January.

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February 15th

- 1099-B for proceeds of investments sold during the year. These usually include the cost basis of the funds sold to help you calculate the capital gain or loss.
- 1099-MISC for payments received in the course of your trade or business.

For non-qualified investment accounts, TD Ameritrade usually combines the 1099-INT, 1099-DIV, and 1099-B forms into one larger document called the 1099-Consolidated. Since it includes the 1099-B, their deadline to send these forms to investors is February 15th.

Income tax deadlines for taxpayers

Individual taxpayers have several deadlines to be aware of, depending on their situation. Here are some of the most common.

- January 18th - Final estimated payment for 2021 tax year.
- January 24th – IRS begins receiving and processing tax returns electronically.
- March 15th – Passthrough tax returns are due for entities such as S Corps and Partnerships.
- April 18th – Individual income tax returns are due.
- April 18th – First quarter estimated tax payment for 2022 tax year.
- April 18th – Traditional and Roth IRA contributions for the 2021 tax year. SEP contributions if an extension has not been filed.
- June 15th – Second quarter estimated tax payment for 2022.
- September 15th – Third quarter estimated tax payment for 2022.
- September 15th – S Corp and Partnership tax return deadline if an extension was filed.
- October 15th – Individual income tax deadline if an extension was filed.

Extensions are given automatically to those who file for one. However, an extension to file is not the same as an extension to pay the taxes due. Individuals who file extensions should make an estimate of the taxes due and submit those funds with the extension to file. If you overestimate the taxes owed, you can either have those funds refunded when you file or apply them to the following tax year.

What documents and figures to gather

Everyone's financial situation is unique, so some (or many) of these items may not apply. Here are some of the documents to gather to start the process.

Personal Information

- Last year's tax return – This will have most of the personal information you need unless there was a change last year. This should also be an excellent guide to indicate what income sources and deductions to include on this year's return.
- Social Security numbers for yourself, your spouse, and your dependents. This will likely be on last year's tax return.

Income

- Wages as reported on W-2 forms.
- 1099 forms for interest, dividends, retirement account distributions, pensions, Social Security, etc.
- Business income and deductions if the business is a sole proprietorship or a Schedule K-1 from your business tax return for S Corps or Partnerships.

Deductions

- Contributions to retirement accounts such as traditional or Roth IRAs. Although Roth IRA contributions do not count as a deduction, they still should be noted on your tax return in case of early distributions.
- Education expenses – Taxpayers and their dependents should collect their 1098-T statement and other educational expenses as well as student loan interest paid as they may be deductible.
- Medical expenses – If your total medical expenses are more than 7.5% of your income, you may be able to deduct those expenses. These can also include miles driven to receive medical care.
- Property taxes and mortgage interest – Mortgage interest is reported to taxpayers on form 1098 and often includes property taxes paid if the payments came from their escrow account.
- Charitable donations – Taxpayers who do not itemize their deductions are eligible to receive a deduction of up to $300 for single filers and $600 for married filing joint for cash contributions to charities.
- State and local taxes – Often, this information is found on last year's tax return and this year's W-2 or 1099 statements where income taxes were withheld. The maximum deductible limit for state and local taxes is $10,000 in 2021.
- Health Savings Account (HSA) contributions – Contributions made to HSA accounts are generally deductible.
- Advanced Child Tax Credit information – From July through December 2021, parents may have received advanced payments of their Child Tax Credit. These amounts need to be reported so that you are not claimed twice. The IRS will be mailing letters stating the amount of CTC received throughout the year.

Tax Payments

- Records of estimated tax payments made throughout the year, the prior year's refund applied to the following year, and any tax payments made with an extension request should be collected to claim those payments and reduce the taxes owed.

Financial Recordkeeping

Here we are in the post-holidays portion of winter, where the snow doesn't seem as magical as it did in December. Maybe you are starting a new health routine or debating when an appropriate date is to turn off the Christmas lights on the house. Perhaps you are enjoying the break from yard work and enjoying some reading or planning an upcoming vacation. Another common January tradition is organizing our finances and our homes. A question we often get is how long we should hold on to financial documents and how to dispose of them when it's time for them to go.

There are a few categories of documents; those that should be kept one year, seven years, as long as needed, and forever.

Tax returns should be held for **seven years**. Although the IRS has a three-year statute of limitations to begin most audits, there are a few scenarios where they can audit a tax return up to 7 years after it is filed. It is also important to hold onto the tax forms and receipts for the income and deductions that you have claimed on your tax return along with the tax return.

The **one-year** group is primarily for recurring statements. You may want to consider keeping the last statement of the year and move it into the seven-year rotation. Here are some common examples.

- Monthly bank statements
- Monthly credit card statements
- Monthly investment account statements
- Pay stubs
- Quarterly financial reports from your favorite advisor

Some documents like receipts or warranties are tied to specific items you have purchased. Most receipts can be held for less than a year, especially if the return period has passed. However, there are some legitimate reasons to retain some receipts longer. For example, if a product has a warranty provided by the manufacturer or an extended warranty, you will want to hold onto both the receipt and the warranty. As previously mentioned, if a receipt is your proof of a tax deduction, it should be kept with that year's tax return for seven years. Also, if the receipt is related to an insurance claim, it should be retained until the matter has been settled.

An easy category to overlook is receipts involved in improvements made to your home. These do not include regular maintenance but would consist of significant improvements that increase your home's value, such as major remodels or additions, including a deck or fencing. These costs are not deductible but do raise the cost basis of your home, which means a lower gain to possibly pay taxes on when you sell. These should be held for as long as you own your home and then should be included in that year's tax return documentation.

Finally, we have the **forever** list. These are documents that you should never throw out because you never know when you may need them.

- Birth certificate
- Social Security card
- Marriage certificate
- Adoption papers
- Death certificates
- Passports
- Wills & Trusts
- Powers of attorney (financial and medical)
- Living wills
- Legal filings
- Military records
- Pension plan documents
- Inheritance documents

Documents can be stored either in paper format or digitally, although both methods require some planning to ensure they aren't lost. Paper documents should be stored in a safe place with some protection from floods and fires, while digital documents should be stored in a safe place either on your own storage device or on the cloud securely.

When it comes to disposing of documents, anything with your name, address, account number, or other personal information should be shredded before disposal. We offer free shredding for our clients as part of our services.

Best of luck in the new year with all of your resolutions, plans, and goals. We look forward to hearing about your adventures!

"Perpetual Optimism is a force multiplier."

--Colin L. Powell (1937-2021)
American politician, statesmen, diplomat, and US Army officer