



Dear Client:

As we come into the final quarter of a tumultuous year, Congress and the IRS continue to pass, update, and extend tax programs to assist all taxpayers. Payments have been processed for the Advanced Child Tax Credit (ACTC) which continue through December 15, 2021. It is important to note that taxpayers receiving the advanced credit will see the impact when their 2021 tax returns are prepared in 2022. The advanced payments received will be reconciled on the 2021 return and reduce the amount of the total credit which would have normally been received with the preparation of the tax return.

There is a distinction between the third Economic Impact Payment (EIP) received in early 2021 and the Advanced Child Tax Credit payment. Both tax provisions will be reconciled on the 2021 individual income tax returns. However, the end results will be much different. If the full EIP was received (\$1,400 per eligible taxpayer and spouse and any dependents) then there will be no effect on the tax return. If a reduced (or no) payment was received, the reconciliation will determine if an additional amount is due which will be refundable upon preparation of the return. If the taxpayer received excess EIP, there will be no repayment requirement. When

the ACTC is reconciled, if there were any excess payments or the taxpayer was not eligible for the child tax credit then it will either reduce the refund or create a balance due situation upon the preparation of the 2021 income tax return.

Contact our office if you have any questions regarding the tax provisions covered in this newsletter or any other situations that may have a tax implication. We are available year-round to assist you with the new tax provisions that have been implemented throughout this pandemic.

HOW DOES STUDENT DEBT RELIEF FOR THE DISABLED WORK?

The Department of Education announced August 19, 2021, that it would automatically discharge federal student loans for 323,000 borrowers who qualify as totally and permanently disabled. Their debt totals \$5.8 billion.

The provision to discharge the student loan debt of those who are totally and permanently disabled (or deceased) was included as part of the Tax Cuts and Jobs Act.

Those who qualify for the loan discharge have been identified through a data match with the Social Security Administration. Previously, individuals with federal student loans had to apply for a loan discharge by sending in

documentation of their disability from the U.S. Department of Veterans Affairs, the Social Security Administration (SSA) or a physician.

“Today’s action removes a major barrier that prevented far too many borrowers with disabilities from receiving the total and permanent disability discharges they are entitled to under the law,” said Miguel Cardona, the secretary of education, in a press release. “This change reduces red tape with the aim of making processes as simple as possible for borrowers who need support.”

Future borrowers also will not have to apply for disability discharges; rather, they will be automatically identified based on information from the SSA or

the VA. The discharges, current and future, will not be subject to any federal income taxes, but may be subject to some state income taxes.

The Education Department will also no longer require those with disability discharges to provide earnings information after receiving the discharge. In March 2021, the department reinstated loan discharges for 41,000 borrowers who had been approved for a disability discharge but had their loans reinstated after not providing earnings information.

Loan forgiveness for other borrowers

Cardona, asked about broader student loan forgiveness in a call with the media,

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said that “process is still underway” as the Department of Education continues discussions with the Department of Justice and the White House.

The Education Department has provided relief to other borrowers through borrower defense to repayment — a remedy for borrowers defrauded by their schools.

- In March, the department announced it would extend full relief to borrowers approved for borrower defense debt cancellation, which totaled \$1 billion in loan debt for 72,000 borrowers. Previously, these borrowers were provided for partial relief of the debt.
- In June, the department canceled debt for 18,000 borrowers who had attended ITT Technical Institute, a for-profit chain of schools that closed in 2016, relief that totaled \$500 million.
- In July, the department discharged \$55.6 million for 1,800 new borrower defense claims.

- In August, the department announced it retroactively waived interest on the student loans for 47,000 current and former active-duty service members. Future service members will also automatically benefit from this student loan interest benefit.

Your options when federal student loan payments resume

For the vast majority of borrowers who have not had their federal student loans discharged, payments resume at the end of the forbearance period on February 1, 2022.

For those who are struggling financially, the period before the end of forbearance can be used as a trial period. Set aside your monthly student loan bill to get into the habit of making payments, but also to see if you are capable of paying your loan bill in full.

If you are having trouble setting aside those payments, or if you already know

you will have trouble making payments come February 1, contact your servicer before payments resume to find a repayment option that works for you. Then, once your payments resume, you will go straight into that repayment plan. Income-driven repayment reduces payments to a percentage of your disposable income, even as low as \$0.

Borrowers who are confident they will be able to resume making payments come February 1 should consider making payments during the final forbearance extension. While the forbearance period delayed the payment of the student loan debt, it does not stop the accrual of interest on the loan balance. By making payments as soon as you are able, it will help pay off loans faster as well as decrease the total interest paid on the loans.

Contact our office if you believe that the loan forgiveness provisions of the Tax Cuts and Jobs Act applies for either yourself or a family member.

CHILD TAX CREDIT PORTAL

The IRS has launched a new feature allowing any family receiving monthly Child Tax Credit payments to quickly and easily update their mailing address using the Child Tax Credit Update Portal found on the IRS.gov website.

This feature will help any family that chooses to receive their payment by paper check avoid mailing delays or even having a check returned as undeliverable.

If a taxpayer changes their address using the Child Tax Credit Update Portal, the IRS will use this updated address for all future IRS correspondence. This address change feature will eliminate the need to file Form 8822, Change of Address. The IRS will be mailing a year-end summary statement (Letter 6419) to all taxpayers who have received the advance Child Tax Credit payments during 2021 and having a current address on file with the IRS will ensure prompt delivery of this statement.

You will need Letter 6419 in order to accurately complete the 2021 return, which will be filed in 2022, to reconcile the amount of the Child Tax Credit received. The advance payments of the Child Tax Credit will reduce the amount received as one-half of the credit is being paid in advance and the balance will be received when the 2021 return is filed.

There are other services available through the portal which includes the ability to verify your eligibility for the payments, as well as:

- Switch from receiving a paper check to direct deposit,
- Change the account where the payment is direct deposited, or
- Stop monthly payments for the rest of 2021.

Contact our office if you have any questions regarding your eligibility for the child tax credit.

Why do I owe a penalty and interest and what can I do about it?

There are many reasons why the IRS may charge penalties on your tax account. The IRS is legally required, under Internal Revenue Code (IRC) § 6601, to charge interest when you fail to pay the full amount you owe on time. Interest may also accrue on penalties. Interest and any applicable penalties will continue to accrue until you pay your balance due in full. Here are some of the most common penalties, information on why they may have been charged, and how to request penalty abatement (removal) if applicable.

Penalties (and the reasons for them) include:

- **FAILURE TO FILE** – when you do not file your tax return by the return due date or extended due date if an extension to file is requested and approved.
- **FAILURE TO PAY** – when you do not pay the taxes reported on your tax return in full by the due date of the original tax return. An extension to file does not extend the time to pay so you must pay your taxes by the original due date of the tax return even if you have requested an extension of time to file your tax return. In addition, the IRS may charge a failure to pay penalty if the IRS makes a notice and demand for payment and you fail to pay on time.
- **FAILURE TO PAY PROPER ESTIMATED TAX** – when you do not pay enough taxes due for the year with your quarterly estimated tax payments, or through withholding, when required.
- **BAD CHECK** – when your bank does not honor your check or other form of payment.

Interest:

The IRS is required to charge interest on any unpaid balance owed until it is paid in full. Common scenarios where you may get penalty and interest charges include:

- ***I sent a payment to the IRS, but I still got a bill with penalty and interest charges. What can I do?*** If you mailed a payment in 2021 to the IRS on or before May 17, it may still be unopened in the backlog of mail the IRS is processing due to COVID-19. The IRS will process your payment with the date the IRS received it. Do not cancel your check, and make sure funds are available for when the IRS processes your payment.
- ***I received penalty and interest charges because I did not pay yet. What are my options?*** First, it is important to understand that applicable penalties and interest will continue to accrue until the account is paid in full, so the sooner you pay the balance, the less you will have to pay in penalties and interest.

How can I dispute IRS penalties?

If you were affected by the pandemic or other circumstances, the IRS may be able to remove or reduce some penalties due to *reasonable cause*, but only if you tried to comply with the tax law but were unable to due to facts and circumstances beyond your control. If this applies to you and you have the necessary documentation to support your claim, you can call the toll-free number on your IRS notice or write a letter to request penalty relief due to reasonable cause.

The IRS will also consider the following situations for waiving penalties:

- Administrative Waiver; or
- Statutory Exception.

What if the IRS denies my penalty abatement request?

If the IRS rejects your request to remove a penalty, you may be able to request a conference or hearing with the IRS Independent Office of Appeals. You have 30 days from the date of the rejection letter to file your request for an appeal.

How do I request removal of interest charges?

If any of your tax and/or penalties are reduced, the IRS will also automatically reduce the related interest. Interest is charged by law and will continue until your tax account is fully paid.

The IRS may only reduce the amount of interest you owe if the interest is due to an unreasonable error or delay by an IRS officer or employee in performing a ministerial or managerial act.

As of this date, the IRS response times for calls and written submissions is still being affected by the ongoing Coronavirus situation. This IRS has created the IRS Operational status page, including the section on Answered a Letter or Notice, for more details on delays due to the pandemic and other tax news. However, even if the IRS takes a bit longer to address your request, if granted, all applicable penalties (and associated interest) will be removed as appropriate.

We are here to help you address any notices you may receive that assess penalties and/or interest on your tax account. Be sure to open all IRS notices promptly (the IRS will only send notices through the U.S. mail, never by email or any other social media outlet) and forward to our office for review and appropriate response.

ARE YOU AN INDEPENDENT CONTRACTOR OR AN EMPLOYEE?

It is critical that business owners correctly determine whether the individuals' providing services are employees or independent contractors.

An employee is generally considered to be anyone who (a) performs services, (b) the business can control what will be done; and (c) how it will be done. What matters is that the business has the right to control the details of how the worker's services are performed.

Independent contractors are normally people in an independent trade, business, or profession in which they offer their services to the public. Some examples include doctors, dentists, veterinarians, lawyers, accountants, contractors, subcontractors, public stenographers, or auctioneers. However, based on the situation, they may be performing services as an employee if they work for one company, report to the business owner, and are provided with the tools needed to perform the work. Another big key is whether they receive a regular paycheck regardless of the work performed or are paid by their clients based on a contractual understanding.

Whether a worker is an independent contractor, or an employee depends on the relationship between the worker and the business. Generally, there are three categories to examine:

- Behavioral Control - Does the company control or have the right to control what the worker does and how the worker does the job?
- Financial Control - Does the business direct or control the financial and business aspects of the worker's job. Are the business aspects of the worker's job controlled by the payer? (Things like how the worker is paid, are expenses reimbursed, who provides tools/supplies, etc.)
- Relationship of the Parties - Are there written contracts or employee type benefits (i.e. pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the business?

Misclassifying workers as independent contractors adversely affects employees because the employer's share of taxes is not paid, and the employee's share is not withheld. If a business misclassified an employee without a reasonable basis, it could be held liable for employment taxes for that worker. Generally, an employer must withhold and pay income taxes, Social Security and Medicare taxes (jointly considered FICA taxes), as well as both federal and state unemployment taxes. Workers who believe they have been improperly classified as independent contractors can use IRS Form 8919, Uncollected Social Security and Medicare Tax on Wages to figure and report their share of uncollected Social Security and Medicare taxes due on their compensation.

VOLUNTARY CLASSIFICATION SETTLEMENT PROGRAM

The Voluntary Classification Settlement Program (VCSP) is an optional program that provides taxpayers with an opportunity to reclassify their workers as employees for future tax periods for employment tax purposes with partial relief from federal employment taxes for eligible taxpayers that agree to prospectively treat their workers (or a class or group of workers) as employees. Taxpayers must meet certain eligibility requirements, apply by filing Form 8952, Application for Voluntary Classification Settlement Program, and enter into a closing agreement with the IRS.

WHO IS SELF-EMPLOYED?

Generally, someone is self-employed if any of the following apply to them.

- They carry on a trade or business as a sole proprietor or an independent contractor.
- They are a member of a partnership that carries on a trade or business.

- They are otherwise in business for themselves (including a part-time business).

Self-employed individuals generally are required to file an annual tax return and pay estimated tax quarterly. They generally must pay self-employment tax (Social Security and Medicare tax) as well as income tax. Self-employed taxpayers may be able to claim the home office deduction if they use part of a home for business.

WHAT ABOUT THE GIG ECONOMY?

The gig economy – also called sharing economy or access economy—is activity where people earn income providing on-demand work, services, or goods. Gig economy income must be reported on a tax return, even if the income is from part-time, temporary, or side work; not reported on a Form 1099-K, 1099-NEC, W-2 or other income statement; or paid in any form.

Contact the office if you have performed services as an independent contractor for a consultation on your tax filing requirements and if estimated tax payments will be due prior to filing your 2021 income tax return.

