



Investment News

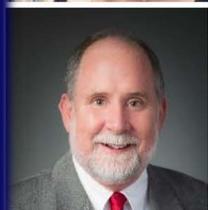
February 2021



Tax Filing Season Is a Little Later This Year *What to know and dates to remember*



Recently, the Internal Revenue Service (I.R.S.) announced that tax season will start a little later than usual. This year the I.R.S. will begin accepting and processing 2020 tax returns on Friday, February 12, 2021.¹



In light of the December 27 tax law changes which brought a second round of Economic Impact Payments and other benefits to many, the I.R.S. will use this additional time to update, program, and test their systems.¹



However, if you intend to work with a tax professional or use tax software, there's no need to wait. If you prepare your return now, not only will you have your taxes done and out of the way, but your filings will be transmitted to the I.R.S. starting February 12.¹

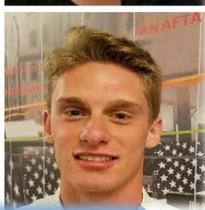


Even with this new date in mind, your deadline to file is still April 15. To request an extension, make sure you do so by April 15. This may grant you until October 15 to file your 2020 tax returns. However, this is an extension for filing only. The I.R.S. still requires one to pay any taxes due by the original filing date of April 15.¹



Filing one's tax returns can be a complicated and sometimes daunting process. It's never a bad idea to speak with a tax professional before filing, or securing their services to file on your behalf.

This article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax, legal, and accounting professionals before modifying your tax-filing strategy.



Sources

1. IRS.gov, January 15, 2021

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1099 Forms

Explaining the many types of 1099 forms and their uses.

What is a 1099 form? This is a record of payment from an individual or entity, showing a payment, generated for your records. The individual/entity sends a copy to both the payee as well as the I.R.S.¹

Who might be sending 1099s? Clients send their contractors 1099s, recording work performed. Banks send 1099s to reflect interest from a savings account. A state may send a 1099 for a tax refund. If the financial institution who handles your retirement account writes you a check, they will also send you a 1099.¹

In any event, a 1099 includes the taxpayer identification number or Social Security Number of the payee. Receiving the 1099 does not automatically mean that the payee owes tax, as there could be situations that offset that income, but it definitely means that the I.R.S. also has a record of that payment.¹

There are many types of 1099 form. Here are a few of them:

1099-A. This form is a consequence of foreclosure or bank repossession of secured real property such as one's home if used for collateral for a loan, for example.¹

1099-B. Brokers and barter exchanges report proceeds from securities, futures, commodities, or barter exchange transactions with a 1099-B.¹

1099-C. The 1099-C reports debt cancellation. if you had at least \$600 of debt cancelled during the year. This includes the cancellation of debt you owe for a home, like in the case of foreclosure. This form is sent if the debt was cancelled by a bank, credit union, the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Resolution Trust Corporation (RTC), another lender or financial institution, the federal government, a department of the U.S. military, the U.S. Postal Service (USPS), or the Postal Rate Commission.¹

1099-CAP. The 1099-CAP goes to shareholders who received at least \$1,000 as cash, stock, or other property due to an acquisition of control or a substantial change in the capital structure of a corporation.¹

MARKET PERFORMANCE 01/01/2021 to 01/31/2021

DJIA ^DJI Down -2.04%
S&P 500 ^GSPC Down -1.11%
NASDAQ ^IXIC Up 1.42%
Russell 2000 ^RUT Up 4.73%

* Index performance does NOT include any fees (Gross of fees)

Source: <http://finance.yahoo.com>

1099-DIV. When you receive dividends, capital gain distributions, or liquidation distributions, you get one of these. For example, when a mutual fund sells off funds and realizes a capital gain, the fund informs you of your share of the capital gain through a 1099-DIV.¹

1099-G. A 1099-G is used to report \$10 or more of unemployment compensation, tax refunds you got from state and local governments, agricultural payments, or taxable grants you received.¹

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1099-H. Your health insurance provider will send you a 1099-H if you had any portion of your health insurance premiums paid with advance payments from the health coverage tax credit (HCTC.)¹

1099-INT. This form reports interest income of \$10 or more, and sometimes other tax items related to interest income.¹

1099-LTC. This form reports distributions from extended care insurance contracts and accelerated death benefits paid out as a result of a life insurance contract or a viatical settlement.¹

1099-MISC. This category includes “miscellaneous income,” including awards and prizes.¹

1099-OID. The 1099-OID reports the difference between the stated redemption price of a bond at maturity and the issue price of that bond.¹

1099-PATR. This form reports patronage dividends, such as in a farm cooperative.¹

1099-Q. Have you been paying for school expenses from a 529 plan or a similar savings plan? Withdrawals will be reported on this form.¹

1099-R. The 1099-R reports distributions from all types of retirement, pension, and profit-sharing plans as well as any IRA or annuity contract.¹

1099-S. The 1099-S reports gross proceeds from real estate transactions or exchanges.¹

1099-SA. This form reports distributions from Health Savings Accounts (HSA), Archer Medical Savings Accounts (Archer MSA), or Medicare Advantage Medical Savings Accounts (MA MSA).¹

Questions? Be sure to talk with a qualified tax professional or qualified financial professional today; they can help you generate, request, and understand any of the above 1099 forms in question.

Citations

1. Policygenius.com, March 17, 2020



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Will Updated I.R.S. Tables Create an Opportunity for Retirees?

Life expectancy table updated for the first time since 2002.

If you are retired and have reached your seventies, you may have the opportunity to draw a little less income from your retirement savings accounts in 2022.

Next year, the Internal Revenue Service plans to update the life expectancy tables used for the calculation of required minimum distributions, or RMDs – the annual withdrawals you are asked to make from certain kinds of retirement plans.¹

The I.R.S. knows that on the whole, Americans are living longer than they used to, and therefore, their retirement savings need to last longer. In recognition of this, it is revising the tables used to figure RMDs for the first time since 2002.¹

Under the new life expectancy tables, RMD amounts are reduced a bit. Generally speaking, they shrink by several percentage points.

For example, if you turn 72 in 2022 and take your first RMD from a traditional IRA (or other qualified retirement plan) by the end of 2022, that RMD will be 6.65% smaller than it

would be according to the 2021 tables. (You do have the choice to delay your initial RMD into 2023, though if you do so, you will be asked to take *two* 2023 RMDs.)²

To further illustrate this, we will switch over to dollars from percentage points. If you turn 72 in 2022 and decide to take your first RMD from a traditional IRA that has \$3,000,000 in it by the end of 2022, your RMD is \$109,489 by calculations using the 2022 tables. Using the current tables, that 2022 RMD would be \$117,186.³

Speaking of traditional IRAs, as a reminder, distributions from traditional IRAs must begin once you reach age 72. The money distributed to you is taxed as ordinary income. When such distributions are taken before age 59½, they may be subject to a 10% federal income tax penalty. You may keep contributing to a Traditional IRA past age 72, as long as you meet the earned-income requirement.

The reduction in RMDs may be a benefit. You might be wondering if you should offset it by withdrawing more than the RMD amount, but there could be a price to pay for that over time; drawing down your retirement savings too much can heighten the risk of outliving your money.

Consider the upsides to smaller RMDs. A little more of your retirement money stays in the account, with further potential for tax-deferred growth. As RMDs represent taxable income, a marginally smaller RMD may leave you with slightly less income tax linked to the distribution.

Citations

1. Kiplinger.com, December 20, 2020
2. Florida Today, January 8, 2021
3. IRAHelp.com, November 9, 2020

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