During last year’s session....

- Stated that new tax law was imminent
- Could possibly include provisions such as:
  - Income tax rate hikes
  - Increased tax on certain Capital Gain transactions
  - Removal of Stepped-Up Basis
  - Increased tax on those making more than $400k
  - Repeal of 20% deduction provision to small businesses
  - More inclusive investment taxes
So, what came to be?

» Very little
  » Mainly further Covid-19 relief for individuals
    » Additional tax credits for those with dependents
    » Additional stimulus payments
    » Extensions of unemployment, SBA programs, and payroll credits

» Build Back Better Bill
  » Biden administration’s big push at some tax reform
    » Sen. Joe Manchin declared the bill “dead” February 1st

» Future tax provisions?
  » Very Uncertain
  » Put on the back burner for now
End of Covid-19 tax law era - hopefully

- Paycheck Protection Program loans
  - Wrapping up forgiveness for loans round #1 & #2
  - Reported as non-taxable income for certain business type filers / not reported at all for others
- Reconciling of payroll type credits on 2021 returns
  - Employee Retention Credit
  - Sick and Family Leave credits
- Stimulus/Advanced Child Tax Credit payment reconciliations - Individual returns
- 100% Meals deduction for those purchased at restaurants
- Increased charitable donation rules
Expiring tax provisions

- Temporary Net Operating Loss (NOL) rules expired 2020
  - NOL's arising from a loss of non-farm activities must be carried forward
    - 5 year carryback was allowed for years 2018 - 2020
  - Farming activity still provided carryback
    - Per IRS publication 225 - farmers allowed a 5 year carryback for 2021

- Tuitions & Fees Deduction - expired 12/31/20

- Numerous Covid-19 related relief items
  - Exclusion of unemployment income up to $10,200 - expired 12/31/20
  - Retirement required minimum distributions - back in place for 2021
Known future provisions to be thinking about

- Estate exemption to be cut in half after 12/31/2025
  - Current exemption 2022 - $12,060,000
  - Would revert back to around $6 million
- Qualified Business Income Deduction to Expire 12/31/2025
  - 20% deduction of qualifying business income subject to phase outs
- Bonus Depreciation to phase out by 2027
  - 2022 - 100%, 2023 - 80%, 2024 - 60%, 2025 - 40%, 2026 - 20%
- Individual income tax rate hikes after 2025
The status of the IRS

- Per the Taxpayer Advocacy
  - “Deeply Concerned” about 2022 filing season
  - As of end of December 2021 - 8.3 million unprocessed individual returns
  - 5 million pieces of unaddressed taxpayer correspondence
  - Telephone service worst ever
    - Only 11% of calls answered - 250 million calls unanswered
    - At one point, receiving around 1,500 calls per second
  - 199 days to process responses to correspondence - up from 74 days

- Per your local Tax Professional
  - We felt it first hand
    - Influx of incorrect notices received
    - Difficulty to resolve issues
    - IRS technical system failures
Tips for smooth tax filings

- Provide your tax preparers with accurate stimulus and advanced child tax credit payments
  - Should receive letters from the IRS stating the amounts
    - Reconcile letters with bank statements
- Submit all filings and payments electronically if possible
  - Not perfect, but seeing more errors and delays with regards to general postage
- Be sure to provide **ALL** important tax documents received
  - With more 1099’s being issued, taxpayers need to be sure that what the IRS has matches what is being reported
- File an extension just in case if you are filing and paying near the deadline
- Be patient
Timber Taxation - Strategizing
Employed vs. Self-employed

- Employees
  - Not much room to wiggle unless another business venture is present
  - No deduction of employee business expenses

- Self-Employed
  - Deduction of business related expenses
  - Trump tax laws currently still in place
    - Aggressive capital asset depreciation
    - Qualified Business Income deduction (20% haircut)
Investment vs. Business

- Passive investments, hobbies, and non-active participation
  - Produces little to no current tax benefit on dollars spent
  - Most dollars spent are either lost or held until the major capital assets are sold

- Active trade or business
  - Opens the door to numerous tax advantages
  - Typically considered a “Self-employed” activity
  - Cash inflows/outflows more closely line up with taxable income
Business like

- Paint the right picture
  - Make sure expenses such as interest expense, property taxes, utilities, etc. are being used appropriately and effectively where blurred lines exist
    - These types of expenses not used in conjunction with a business are just lost
    - Keep distance between recreation and operations
  - Does it look, smell and taste like a business?
    - Material participation - keep a log of time, work, and travel
    - Profit making intentions - stay active with foresters, organizations, and training/knowledge
    - Adequate record keeping - management plans, receipt records, etc.
Common tax deductible expenditures (including depreciable purchases)

- Property Taxes
- Insurance
- Legal & Professional
- Repairs & Maintenance
- Supplies
- Auto
- Equipment purchases
- Custom Hire
- Reforestation
- Dues & Subscriptions
- Continuing Education
- Chemicals
- Certain Property improvements
- Fuel & Oil
- Interest
- Contract Labor
- Equipment Rental
- Utilities
Adequate Record Keeping - Income taxes

How long?
- IRS statute of limitations = 3 years
- We recommend keeping records 4-5 years with overlap of filing periods
- Might retain longer for special purposes - Capital Gains(Losses) & basis

What records?
- Bank statements, Credit Card statements, receipts, invoices, mileage logs
- Images - recently aided in one of our timber farm audits

Clear Separation
- Not a bad idea to have separate bank accounts/credit cards for each business activity
- Not the same for other taxes, such as estate or sales.
Adequate Record Keeping - Cost Basis

- Cannot express the importance
  - Permanently store original cost records
    - Purchase settlement statements
      - Purchased or gifted
    - Estate tax returns/records for inherited properties
    - Distributions from other entities (k-1 statements / 1099-div liquidating)
- Inherited property
  - Property appraisals for highest values
    - Land & Timber

\[\text{Axley & Rode LLP}\]
Business entities

▲ Often asked – how should I structure my business?
  ▲ Options
    ▶ Sole-proprietor business or farm (1040 Schedule C or F)
    ▶ Partnership (1065)
    ▶ S-Corporation (1120S)
    ▶ C-Corporation (1120)
    ▶ Trust (1041) *typically used for estate & succession planning first & foremost
  ▲ What about an LLC?
    ▶ Most commonly used entity structure - came into existence after federal tax law structure
    ▶ An LLC can fall under any federal taxing structure given the right circumstances
Business entities - why and which one?

Key factors in determining what entity structure to use:

- Legal liability
- Ownership
- Succession
- Federal and state taxes
- Complexity and cost benefit
- Payroll and benefits
- Growth and buying power
Handy Tools

- **Mile IQ**
  - [https://www.mileiq.com/](https://www.mileiq.com/)
  - A pencil free business mileage log
  - Automatic tracking
  - Year end reports
  - Multiple classifications
  - Can be used from your smartphone or computer

- **QuickBooks Online**
  - [https://quickbooks.intuit.com/online/](https://quickbooks.intuit.com/online/)
  - Real time, cloud based accounting
  - Anytime Accountant assistance
  - Automatic bank feeds and transaction memorization
  - App integration
  - Test Drive the system - [https://qbo.intuit.com/redir/testdrive](https://qbo.intuit.com/redir/testdrive)
Handy Tools

- Local Appraisal District / Tax Assessor
  - Depending on service provider, they may provide the following information:
    - Owner Info
    - Deed transfer Dates
    - Appraised values breakdown
    - Map Tools and property lines
    - Appraisal Example - [https://polkcad.org/home](https://polkcad.org/home)
    - Assessor Example - [http://polktax.com/](http://polktax.com/)

- National Timber Tax
  - [https://www.timbertax.org](https://www.timbertax.org)
  - A wealth of information regarding timber tax for all levels of participants
Handy Tools

- **Gusto Payroll**
  - [https://gusto.com/](https://gusto.com/)
  - Simplified payroll for small employers (I recommend 1-5 employees)
  - Can be as easy as hands free
  - Paperless system

- **Texas Comptroller**
  - [https://comptroller.texas.gov/](https://comptroller.texas.gov/)
  - Research and instructions for basically all Texas taxes
  - Entity lookup - [https://comptroller.texas.gov/](https://comptroller.texas.gov/)
  - Online filing - [https://mycpa.cpa.state.tx.us/securitymp1portal/displayLoginUser.do](https://mycpa.cpa.state.tx.us/securitymp1portal/displayLoginUser.do)
Handy Tools

- Office Lens mobile app
  - Enhances, trims and straightens document images taken by phone
  - Stores them and enables them to be transferred to other devices in readable workable formats
  - Works with most documents, including business cards

- Rocket Book
  - [https://getrocketbook.com/](https://getrocketbook.com/)
  - Notebook style devices that convert written text into electronic readable and transferrable data
Handy Tools

- ShareFile
  - [https://www.sharefile.com/](https://www.sharefile.com/)
  - Secure document exchange
  - Temporary data cloud based storage
  - Able to send multiple and large files
  - Can be paired with e-mail

- Local CPA’s website
  - May provide an available portal for secure document exchange and retention
  - News on tax laws and changes that affect the local area (example - Covid pandemic tax laws)
  - Links and resources