



1040 News

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Quarterly news & tips for folks in every tax bracket

Happy New Year! Let's explore some new rules... and some oldie-but-goodie tips:

Page 1: New rules for owners of entities (including LLCs and corporations).

Page 2: Classic organization tips for the upcoming tax season.

Beneficial Ownership Information (BOI)

Some (not all) corporations and LLCs (plus some other business entities) must report information about their owners, controllers, and applicants. Failure to comply may result in hefty fines and/or criminal prosecution.

The purpose of this newsletter is to raise awareness about BOI reporting. It is not designed to cover BOI filings in detail. The government's BOI "Small Entity Compliance Guide" is 50 pages long and includes 23 different types of exemptions. As such, do not rely on this fact-sheet for complete information.

Background

In 2021, Congress enacted the Corporate Transparency Act. The purpose of the act was to make it harder for criminals to hide income/money via shell companies or other opaque ownership structures. The Financial Crimes Enforcement Network (FinCEN), a bureau of the U.S. Department of the Treasury, is managing the filings and compliance.

Who Has to Report?

Entities may need to report BOI if they are:

- A corporation, a Limited Liability Company (LLC), or was otherwise formed by filing a document with a secretary of state or any office under the law of a

state or Indian tribe.

- A foreign company that was registered in any state or Indian tribe by such a filing.

There are 23 types of exemptions to the filing requirement. These details are beyond the scope of this newsletter. Most of the exemptions are for entities that are already required to report information to other federal agencies (including: banks, insurance companies, some investment and securities companies, large operating companies, among many others).

What is Reported?

The reports will contain information about the entity itself and two categories of individuals:

1. **Beneficial Owners:** Generally, these are individuals who own or control at least 25% of a company (or have substantial control over the company)
2. **Company Applicants:** Generally, these are individuals responsible for filing the documents that create and maintain the company.

The **entity itself** will report: Legal name, trade name, address, state or tribal jurisdiction of formation, IRS taxpayer identification number (plus other details if the entity is foreign).

The **Beneficial Owners & Applicants** will report: Name, date of birth, & current residential address. Additionally, information from (and image of) one of the following non-expired documents will be required:

- U.S. Passport
- State Drivers License
- State, local, or tribal ID

Note: A foreign passport is allowed if the individual has none of the above.

Entities/owners/applicants may alternatively apply for a unique number called a "FinCEN Identifier". In general, the same information listed before is required to apply for the FinCEN identifier. Once granted by FinCEN, the reporting entity can then use the unique number to file the BOI report. These details are beyond the scope of this newsletter.

How and When To File:

- **How:** Reporting companies submit information electronically through FinCEN's website (www.fincen.gov/boi)
- **When:** Filing begins 1/1/24. Companies that were formed prior to 1/1/24 have until 12/31/24 to file. Companies formed during 2024 have 90 days to file. Companies formed after 12/31/24 have 30 days to file.

Where to Learn More:

The FinCEN website is where to go for more information (www.fincen.gov/boi). Specifically, click on "Small Business Resources" (where you will find helpful FAQs, plus the Small Entity Compliance Guide mentioned before).

The FinCEN website also has **warnings about an eMail scam** titled "Important Compliance Notice". The scam eMail asks the recipient to click on a link or scan a QR code. FinCEN does not send unsolicited requests and wants folks to know that the eMails are fraudulent. Naturally, never give sensitive information to a 3rd party unless you trust them to help with compliance. Of course, not all eMails are scams. For example, many Secretary of State offices are sending helpful reminders about the new rules.

Turn the page for more.

Filing season is right around the corner. Let's explore how to better prepare.

Preparing for filing:

First and foremost, pay attention to the organizers and checklists you are provided. Completing an accurate tax return requires lots of information. If you miss a step you will likely have to amend.

Even when you pay attention to instructions, mistakes can be made. This typically happens when tax forms (1099, W2, etc.) are lost or hidden. Mistakes are also common when the forms don't tell the whole story. Here are some common examples:

Online Tax Documents:

Many financial institutions no longer send paper statements in the mail. Common examples include HSAs, brokerages, and retirement accounts. Make a list of these accounts and login to find the 1099 forms (and any other "tax forms").

Cryptocurrency:

Most crypto platforms do not issue 1099 forms. Login to your crypto account and look for "tax forms". If you sold coins/tokens you will need a complete list of transactions dating back to your first trade (if they issued 1099 forms showing cost basis then you won't need the full transaction history).

Foreign Income & Investments:

Report both foreign earned income and investment income. Report foreign investments even if they don't produce income.

Employee Stock Purchase Plans (ESPP) and/or Options:

If you sold shares of employer stock then look for documents showing if a portion of the capital gain was reported as W2 income. The brokerage that manages the ESPP/options often provides "supplemental" documents with these details. Additionally, the employer will likely provide form 3921 and/or 3922.

Out-of-pocket Account Contributions:

IRAs, HSAs, and Solo 401(k)s allow contri-

butions to be made out-of-pocket (aside from pre-tax employee payroll deductions). Be sure to provide statements reflecting such contributions.

Qualified Charitable Distributions (QCDs):

If you are older than 70^{1/2} you can deduct charitable contributions made directly from an IRA. However, the 1099-R form from the IRA will NOT reflect this... provide details so the deduction isn't missed.

Business Owners:

Provide categorized and subtotaled lists of your business expenses. Remember that all business deductions must be both ordinary and necessary.

Report business mileage and total miles driven for each vehicle you own separately. Business mileage deductions require proof. If you didn't keep track of business mileage throughout the year you are allowed to reconstruct. However, you still need proof. Keeping a business appointment calendar with details of where you went is a wise idea.

Don't forget to document if you received Employee Retention Credits. The credits are not taxable income, but they do require amending income tax returns (business and/or personal for 2020 or 2021, depending on the period for which the credit was claimed).

If your business lost money, be prepared to discuss how it is going to be profitable in the future. If you don't have a plan for profitability, be prepared to discuss if your intent is to make a profit.

Medical Expenses:

Most folks can skip the time consuming task of subtotaling out-of-pocket medical expenses if they are confident that they don't exceed 7.5% of their Adjusted Gross Income (or if they are confident they won't itemize). If otherwise, subtotal each of the following medical expenses separately:

- Premiums paid (medical, dental, vision)
- Long term care premiums paid
- Medical miles driven
- Other out-of-pocket medical expenses

Note: Self-employed folks should report health insurance premiums (medical, dental, vision, & long-term-care) even if total medical expenses do not exceed the 7.5% AGI threshold.

Landlords:

Provide the following:

- Rents received (do not include security deposits)
- Form(s) 1098 for mortgage interest.
- Property tax statement(s)
- Mileage to visit the property/tenants and/or purchase supplies.
- Categorized and subtotaled property expenses.

Note: Owner-occupied property landlords should also provide.

- Total square footage of the property and the tenant-occupied space.
- Separate lists of expenses (one for tenant's space and another for the overall property).

Do not provide expenses exclusive to the landlord's space.

Estimated Taxes Paid:

Lastly, don't forget to document quarterly payments of estimated taxes (if any).

What does the year ahead look like?

Don't forget to talk about changes to your situation each year. Will you be making more/less? Changing jobs? Getting married/divorced? Going back to school? Having a kid? Kids leaving home? Kids going to college? Retirement? Inheritance? Starting a business? Selling a house or other assets? Taking money out of retirement? You might not be thinking of the tax consequences.

What about the distant future?

Some long term goals require tax planning too. For example, you may be wondering if you should pay off your mortgage given the changes in tax law. Or maybe you are planning a large gift to charity or saving for your kid's college. Now is the best time to start asking questions.

Thanks for reading 😊