Coleman&Associates
Fully Integrated Tax, Accounting & Financial Services

Monthly Newsletter – March 2022

In This Issue

- Welcome Patti Maher!
- Coleman Portal Requires Multi-Factor Authentication for Enhanced Security
- Coleman Portal – There's an App for That!
- Engagement Letters Have Been Mailed
- Organizers Have Been Posted to Portals and Mailed
- Understanding the Kiddie Tax Rules
- Review Financial Decisions When Interest Rates Change
- Debt Forgiveness May Be Taxable

Important Dates & Deadlines to Note

March 15, 2022

- Due date for partnership and S corporation tax returns

Welcome Patti Maher!

Patti began her career in 1995 after graduating from the University of Dayton with a Bachelor of Science in Elementary Education & Psychology. Prior to joining the firm in 2022, Patti spent 22 years in the hospitality industry managing the sales, marketing, and planning for corporate events throughout Chicago.

Patti currently lives in the North Center neighborhood of Chicago. She loves traveling the globe and can proudly claim that she has walked along the Great Wall of China, summited Mt. St. Helens, and kissed the Blarney Stone among her many adventures. She also enjoys reading, live music, the relaxation of lake life, and is a fiercely loyal Cubs fan. Patti volunteers with Habitat for Humanity in her free time and hopes to one day participate in an international build project with them.

Coleman Portal Requires Multi-Factor Authentication for Enhanced Security

Effective November 2021, there were changes to your Coleman Portal.

Our firm partners with Thomson Reuters (TR) to provide the platform for our Coleman Portals (called NetClient CS), and TR is updating the sign-in process to make it more secure by requiring multi-factor authentication (MFA) and reCAPTCHA. MFA and reCAPTCHA add a layer of protection to the sign-in process, increasing your protection against cyber security attacks.

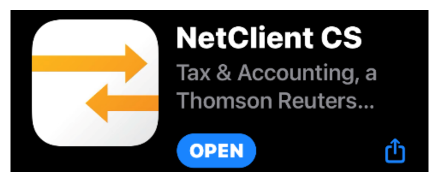
What you need to know:

- You will continue using your current username and password to access your Coleman Portal.
- If you do not already have MFA enabled, you will be prompted to add it.
- Here is a link to a 3-minute video on how to setup your MFA: https://cs.thomsonreuters.com/ua/login_security/cs_us_en/videos_htm/video-mfa-netclient-portal.htm

If you have questions, please call the office to talk to Patti Maher or email Patti@colemancpas.com

Coleman Portal – There's an App for That!

Want to access your Coleman Portal on a tablet or smart phone? You need to download the Net Client CS app, pictured here in the Apple Store (this is in addition to the Authenticator app you already use for multi-factor authentication on your portal).



With the app, you have all the same functions that you have on your computer, including viewing archive documents via Document Presentation and securely sending us information via File Exchange.

Engagement Letters Have Been Mailed

New this year – we used DocuSign for many of our engagement letters! We hope you found the process simple and easy to use.

All 1040 engagement letters were sent via DocuSign or mailed on February 4th and 5th. Portal users, the engagement letters are not on your portal.

***REMINDER* - Married couples must both sign the engagement letter.**

Please be sure to read the 2021 Cheat Sheet for the information required to begin processing your tax return.

Organizers Have Been Posted to Portals and Mailed

Organizers were sent to your Coleman Portal on February 2nd. The email notification was titled "Organizer Available on your Coleman Portal" from info@colemancpas.com.

Paper Organizers were mailed on February 2nd.

Please be sure to read the 2021 Cheat Sheet for the information required to begin processing your tax return.

Understanding the Kiddie Tax Rules

The term kiddie tax was introduced by the Tax Reform Act of 1986. The rules are intended to keep parents from shifting their investment income to their children to have it taxed at their child's lower tax rate. In 2022 the law requires a child's unearned income (generally dividends, interest, and capital gains) above $2,300 be taxed at their parent's tax rate.

Who the Kiddie Tax Applies to —

- ✓ Children under the age of 18
- ✓ Full-time students under the age of 24 and providing less than half of their own financial support
- ✓ Children with unearned incomes above $2,300

Who/What the Kiddie Tax Does *NOT* Apply to —

- ✓ Earned income (wages and self-employed income from things like babysitting or paper routes)
- ✓ Children that are age 18 or older and have earnings providing more than half of their support
- ✓ Gifts received by your child during the year

How the Kiddie Tax Works —

- ✓ The first $1,150 of unearned income is generally tax-free
- ✓ The next $1,150 of unearned income is taxed at the child's (usually lower) tax rate
- ✓ The excess over $2,300 is taxed at the parent's rate.

Tax Planning with the Kiddie Tax Rules —
While your child's unearned income above $2,300 is a problem, you will still want to leverage the tax advantage up to this amount. Here are some ideas:

- ✓ Maximize your lower tax investment options. Look for gains in your child's investment accounts to maximize the use of your child's kiddie tax threshold each year. You could consider selling stocks to capture your child's investment gains and then buy the stock back later to establish a higher cost basis.
- ✓ Be careful where you report a child's unearned income. Don't automatically add your child's unearned income to your tax return. It might inadvertently raise your taxes in surprising ways by reducing your tax benefits in other programs like the American Opportunity Credit.
- ✓ Leverage gift giving. If your children are not maximizing tax-free investment income each year, consider gifting funds to allow for unearned income up to the kiddie tax thresholds. Just be careful, as these assets can have an impact on a child's financial aid when approaching college age years.

Properly managed, the kiddie tax rules can be used to your advantage.

Review Financial Decisions When Interest Rates Change

Interest rates are expected to increase this year in response to inflation that is running at a 40-year high. How will you be affected?

Any interest rate revision can cause a ripple effect throughout the economy. Accordingly, the Federal Reserve's actions probably will exert at least a moderate influence over financial choices that you may make at home and in your business in 2022 and beyond.

Savings and Debt
As a consumer, you stand to gain from rising interest rates because you'll likely earn a better return on your deposits. Over the last ten years, placing your money in a certificate of deposit or passbook savings account has been hardly more profitable than stuffing it under a mattress. On the other hand, the cost of borrowing money will likely increase. As a result, mortgages, car loans, and credit cards will demand higher interest rates. That's not a big deal if you're already locked into low-interest fixed-rate loans. But if you have a variable rate loan or carry balances on your credit cards, you may find your monthly payments starting to increase.

Investments
On the investment front, market volatility may increase because rate increases are not completely predictable. Market sectors will likely exhibit varied responses to changes in interest rates. Those sectors that are less dependent on discretionary income may be less affected – after all, you need to buy gas, clothes, and groceries regardless of changes in interest rates.

As you adjust your financial plan, you might only need to make minor changes. Staying the course with a well-diversified retirement portfolio is still a prudent strategy. However, you may want to review your investment allocations.

Your Business
Rising interest rates can also affect your business. If your company's balance sheet has variable-rate debt, rising interest rates can affect your bottom line and possibly your plans for growth. As the cost of borrowing increases, taking out loans for new equipment or financing expansion with credit may become less desirable.

Please call if you have questions about deciding on the most beneficial response to potential future changes in interest rates.

Debt Forgiveness May Be Taxable

If you had a debt forgiven or cancelled by a financial institution, credit card company, or mortgage company, it may be considered taxable income by the IRS. Here is a quick review of various debt cancellation situations.

- **Consumer debt**. If you have gone through some type of credit workout program on consumer debt, it's likely that some of your debt has been cancelled. If that is the case, be prepared to receive IRS Form 1099-C representing the amount of debt cancelled. The IRS considers that amount taxable income to you, and they expect to see it reported on your tax return. The exception is if you file for bankruptcy. With bankruptcy, generally the debt cancelled is not taxable.

Even if you are not legally bankrupt, you might be technically insolvent where your liabilities exceed your assets. If this is the case, you can exclude your debt cancellation income by reporting your financial condition and filing IRS Form 982 with your tax return.

- **Primary home.** If your home is short sold or foreclosed and the lender receives less than the total amount of the outstanding loan, expect that amount of debt cancellation to be reported to you and the IRS. But special rules allow you to exclude up to $2 million in cancellation income in many circumstances. You will again need to complete IRS Form 982, but the exclusion from taxable income brought about by the debt cancellation on your primary residence is incredibly liberal. So, make sure to take advantage of these rules should they apply to you.

- **Student loans.** If your school closes while enrolled or soon after you withdraw, you may be eligible to discharge your federal student loan and not include the forgiven amount as taxable income. You also may be eligible to exclude from taxable income any student loans discharged due to your school misleading you or engaging in other misconduct in violation of certain state laws.

- **Second home, rental property, investment property, business property.** The rules for debt cancellation on second homes, rental property, and investment or business property can be extremely complicated. Given your cost of these properties, your financial condition, and the amount of debt cancelled, it's still possible to have this debt cancellation income taxed at a preferred capital gains rate, or even considered not taxable at all.

Please call if you have questions about how a cancellation of debt situation applies to you.

As always, contact the office with questions by emailing us at info@colemancpas.com or calling 773-444-3100. We are here to help.