

Monthly Newsletter - May 2021

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Important Dates & Deadlines to Note

May 17th

- ❖ Individual income tax returns for 2020 are due

How to Pay Your Income Taxes

The May 17th deadline for individuals to file and pay your income taxes is fast approaching. While paying taxes is not optional, you do have options when it comes to how to pay your taxes.

These options are available for your balance due and your quarterly estimated taxes, if applicable.

IRS Options

The Internal Revenue Service offers a variety of payment options summarized below. You can find out more and get started at <https://www.irs.gov/payments>

- 1) Bank Account Direct Pay – pay by direct withdrawal from your bank account at no charge
- 2) Debit or credit card – pay using a payment processor with a debit or credit card, plus applicable fees.
- 3) Electronic Federal Tax Payment Systems (EFTPS) – individuals and businesses can use EFTPS at no charge
- 4) Electronic funds withdrawal when we e-file your return – for balances due and your quarterly estimates at no charge. However, if you want to change your quarterly estimates during the year, you must contact the government directly (we cannot do so on your behalf.
- 5) Same-day wire transfer – bank fees may apply
- 6) Check or money order
- 7) Cash – there are still IRS Taxpayer Assistance Centers that accept cash payments – call ahead if you are considering this (IRS wants 30-60 days notice)

Illinois Options

The Illinois Department of Revenue offers a variety of payment options summarized below. You can find out more and get started at

<https://www2.illinois.gov/rev/individuals/pay/Pages/default.aspx>

1. MyTax.Illinois.gov – create an account and pay online. You can schedule your quarterly payments all at once for the year. This is for personal and business use.
2. Credit card – pay using a payment processor with a debit or credit card, plus applicable fees.
3. ACH credit – you direct your bank to transfer funds to the IDOR. Using MyTaxIllinois is preferred over this method.
4. Check or money order

Other states will have similar options. Start with a Google search or ask us for help finding the options for additional states.

Nontaxable Unemployment Benefits

The federally enacted American Rescue Plan Act of 2021 includes a retroactive provision making the first \$10,200 per taxpayer of 2020 unemployment benefits nontaxable for individuals with modified federal Adjusted Gross Income (AGI) of less than \$150,000.

The Internal Revenue Service announced that it will take steps to automatically refund money this spring and summer to people who filed their tax return reporting unemployment compensation before the changes made by the American Rescue Plan.

If you filed your return electronically before March 15, 2021, you do not need to do anything to receive your refund from IRS or Illinois.

For those taxpayers who already have filed and figured their tax based on the full amount of unemployment compensation, the IRS will determine the correct taxable amount of unemployment compensation and tax. Any resulting overpayment of tax will be either refunded or applied to other outstanding taxes owed.

The Illinois Department of Revenue (IDOR) is planning to automatically update your Adjusted Gross Income (AGI) beginning next month. Once your return has been adjusted, you will receive a letter from IDOR explaining the update. If you are entitled to a refund, a paper check will be mailed to the address on file.

Taxes: These Basics Are for Everyone

Understanding how our tax system works can be tricky for anyone. Whether you're an adult who never paid much attention to the taxes being withheld from your paycheck or a kid who just got his or her first job, understanding the basics can help refine and define questions you may have.

Many schools don't teach these tax lessons. This results in many people entering life with a pretty incomplete picture of how taxes work, unless someone else takes the time to explain these tax concepts. Here are some pointers to help you or someone you know navigate our tax maze.

Taxes are mandatory!

While we can have a debate about how much each person should pay, there's no debating that local, state and federal governments need tax revenue to run the country. These funds are used to build roads, support education, help those who need financial assistance, pay interest on our national debt, and defend the country.

There are many types of taxes

When you think of taxes, most think of income tax, which is a tax on business and personal income you earn from performing a job. But there are also other types of taxes. Here are some of the most common:

- ✓ **Payroll taxes.** While income taxes can be used to pay for pretty much anything the government needs money for, payroll taxes are earmarked to pay for Social Security and Medicare benefits.
- ✓ **Property taxes.** These are taxes levied on property you own. The most common example of this is the property tax on a home or vacation property.
- ✓ **Sales tax.** These are taxes placed on goods and services you purchase. While most of this tax is applied at the state and local levels, there are also federal sales taxes on items like gasoline.
- ✓ **Capital gains taxes.** If you sell an investment or an asset for a profit, you may owe capital gains taxes. The most common example of this is when you sell stock for a gain. Capital gains taxes could also come into play with other assets, such as a rental property you sell for a profit.
- ✓ **Estate taxes.** This tax is applied to assets in your estate after you pass away with significant assets (more than \$11 million for 2021).

Not all income is subject to tax

Most, but not all, of your income is subject to tax.

- ✓ While your paycheck is subject to tax, interest earned from certain municipal bonds is not. The government often excludes things like benefits from the tax man.
- ✓ Capital gains taxes have exclusions for gains on the sale of your home and donated stock.
- ✓ Estate taxes have an exclusion, so only estates in excess of the exclusion are taxed.

This is why having someone in the know can be really helpful in navigating these rules.

The progressive nature of income tax

When it comes to income taxes, the government gets to take the first bite. The question is how BIG of a bite the government gets to take.

For example, if you only have one chocolate chip cookie, the government's bite is really, really small. If you have 1,000 chocolate chip cookies, the government takes a small bite from the first 100 cookies, a larger bite from the next 100 cookies, and an even larger bite from the remaining 800 cookies.

This is called a progressive tax rate system. For example, if you're considered single for tax purposes in 2021, the first \$9,950 of taxable money you earn gets taxed at 10%. The next \$30,575 you earn gets taxed at 12%. The next \$45,850 gets taxed at 22%. Money you earn above this point will get taxed at either 24%, 32%, 35% or 37%.

Understanding the progressive nature of our tax system is a key concept in managing the size of the bite the government takes. That is why tax planning is so important!

Deductions can decrease the government's tax bite

The progressive tax system is complex because it is manipulated in a big way by our elected officials. This is typically done through credits, deductions and phaseouts of tax benefits.

For example, there is a fairly complex deduction for families with children, and the earned income tax credit is an added tax cut for those in the lower end of the progressive income tax base. There are also credits and deductions for businesses, homeowners, education and many more types of taxpayers.

As you can imagine, the U.S. tax system is very complex with many nuances. Please seek help if you have further questions or are facing a complicated taxable transaction.

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

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