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2021 Semi-Annual Newsledger

**“THE NEWSLEDGER”**

**WHAT DOES THE \$1.2 TRILLION BIPARTISAN INFRASTRUCTURE BILL LOOK LIKE?**

Due to in-party bickering and fighting the Democrats could not agree on the content or structure of a much needed infrastructure bill. A group of Republican legislators came to their aid resulting in a \$1.2 trillion bipartisan infrastructure spending package. The funds will primarily be distributed to state governments who will determine which projects need priority attention. The money is to be spent primarily as follows:

- \$110 billion for roads and bridges.
- \$66 billion for passenger and freight rails.
- \$65 billion to modernize the electric grid.
- \$55 billion for new water infrastructure.
- \$39 billion for public transit projects.
- \$25 billion for airport upgrades.
- \$7.5 billion to expand the network of electric charging stations.

Additional billions will be spent for cleanup of abandoned industrial sites, mines and other sources of pollution.

**WHAT IS HAPPENING IN OUR WORLD – READ ON IF YOU DARE!**

- If you are a part owner of a pass-through entity and the other owners refuse to make cash distributions – you are still subject to paying income taxes on your portion of any profits.
- Both the District Court and the Appeals Court rejected various high tax states legal challenges relative to the \$10,000 limit on deducting state and local taxes.

- Social Security recipients will get a 5.9% benefits increase in 2022.
- The Social Security wage base will increase by \$4,200 to \$147,000 in 2022.
- Parents who don't file income tax returns can now receive monthly child credit payments.
- IRA's cannot invest in collectibles, however they can hold high-grade bullion.
- IRS agents cannot proceed with a tax levy that creates economic hardship on individuals – however this rule does not apply to corporations!
- The government can garnish the retirement plan of a criminal to pay Mandatory Victims Restitution.
- Last year more than 90,000 American restaurants permanently closed due to the pandemic.
- The Securities and Exchange Commission has requested that Congress give it oversight over cryptocurrency platforms, lending and trading. If Congress doesn't act – the SEC will expand its authority by designating digital tokens as securities!
- Inflation could exceed 6% for 2021 – the highest increase in over 30 years!

- Violent crime in major cities is up 16% during 2021.
- The Department of Labor plans to raise the minimum wage for federal contractors from \$10.96 per hour to \$15.
- 30 states have minimum wages for workers that exceed the federal minimum of \$7.25 per hour. 80% of workers in the United States now earn in excess of \$15 per hour – up from 60% in 2014.
- A survey shows that 30% of city mayors that closed sections of streets and allowed sidewalk dining during the pandemic will keep the rules in place when the threat is over.
- China will now allow all families to have three children.
- Workers are quitting their jobs at the highest rate in twenty years.
- Only federal employees are required to get off on the new Juneteenth holiday. Private-sector employers can decide for themselves if they are willing to celebrate the end of slavery with a day off.
- El Salvador is the first country to establish bitcoin as its legal tender. Businesses are now required to accept bitcoin for payment.
- Gas costs more than \$1 per gallon than it did last year – highest price since 2014.
- Production of semiconductors is a major cause of the high-tech supply system bottleneck. The U.S. only accounts for roughly 12% of global chipmaking capacity. Congress has prepared new subsidies and incentives to increase our production!
- Most solar panels are manufactured in China.
- The Gross National Product is expected to grow by 5.5% in 2022.
- Inflation will continue – as pent-up consumer demand and government spending add to price pressures.
- Mortgage rates will exceed 4% by the end of 2022.
- The tight labor market will continue – look for 4-6% pay increases during 2022 – fringe benefit costs will increase by 7-8%.
- As the government limits fuel production look for continued increases in gasoline and diesel fuel prices – as well as substantial increases in the cost of electricity for both homes and businesses!
- Can you spell “INFLATION”? Look for insurance premiums to increase by 10% or more in 2022!
- Professional fees – attorneys and accountants will cost 10% more in 2022!
- Have you attended a football game recently? This season the NFL is requiring the use of digital tickets! This system gives the NFL access to fans’ emails, phone numbers and other marketing information.
- The Biden administration wants to force the auto industry to increase fuel efficiency by 8% per year for years 2024 – 2026; up from the current 1.5% per year.
- There is no end in sight for the shipping delays. The problems include: shortages of dockworkers; lack of dockside storage space; too few truck drivers; too few hauling chassis; mountains of shipping containers piling up at terminals; backups on railroads and not enough warehouse space.
- DC politicians are getting older! In Congress today the average age is 60, up from 51 in 1981.

- A FIRST! Indianapolis Motor Speedway just held a “NO DRIVERS” race. It was a 50-mile race at speeds exceeding 200 miles per hour.
- AI (Robots) are increasingly doing tasks done by humans workers. Great news for big business – however small firms can’t afford the initial costs – thus they keep falling behind.
- Central banks around the world are speeding up planned interest rate hikes to combat inflation concerns. The Federal Reserve has recently begun tightening monetary policies.
- The U.S. Postal Service is offering, at limited locations, banking services including bill paying, check cashing and ATM access. It is hoped that the postal banking will rescue the post office finances as well as assist millions of people who have limited access to banks.
- The National Labor Relations Board has declared that college football and basketball players should be considered employees – giving them labor protections and allowing for unions to infiltrate.
- Supplier delivery times are at the highest ever. Presently factories are waiting approximately 92 days for raw materials; 45 days for supplies; and 154 days for new production equipment.
- Don’t expect much in the way of sales or discounts during this holiday season. Retailers don’t need to reduce prices to move their limited inventories.
- On-line banking is growing! More than 13,000 bank branches closed in the U.S. between 2018–2020 – a 14% drop!
- Consumers out-of-pocket healthcare spending will exceed half a trillion dollars during 2021 – 11% of total national health care expenditures.
- The amount of commercial crude oil and refined fuel in storage is down 12% from a year ago. Natural gas is down 5%.
- Buyers of small guns and ammunition in the state of West Virginia do not have to pay sales tax on their purchases.
- In 2019 more than 28,500 people had in excess of \$5 million stuffed away in their IRA’s – 500 of them had in excess of \$25 million!
- Millions of American families are now getting monthly child tax credit payments – these payments of between \$250 and \$300 constitute 50% of the family’s anticipated 2021 child tax credit.
- You have 10 years to clean out an inherited IRA account. You can take the funds whenever you want, however the account must be eliminated after 10 years.
- Community property gets a 100% step-up to fair market value when the first spouse dies!
- Clergy are not employees of the church – they are considered “subcontractors” to God! The other God “IRS” however makes the clergy take a vow of “poverty” and file form 4361.
- During the 2021 tax filing season the IRS received 85.1 million phone calls on its toll-free line; compared to 12.1 million in 2020; and 7.3 million in 2019. Only 3% of callers actually got to talk to a human being in 2021!
- The new age when the required minimum distribution from traditional IRA’s kicks in is 72 – failure to take the RMD results in a 50% penalty.
- Internet state-imposed sales taxes have spread like wildfire – all states that impose sales tax now have remote sales tax laws.

Four states have no sales tax: Delaware, Montana, New Hampshire and Oregon!

- U.S. roads, highways and bridges have gotten much more dangerous during 2021. There were more than 20,000 traffic fatalities in the first half of this year – an 18% increase over the same period last year – the largest percentage increase on record.
- Minneapolis voters rejected the proposal to eliminate the police department.
- Companies with more than 100 employees must now require COVID-19 vaccinations; or do regular testing, otherwise they face penalties up to \$13,600 per violation.
- A survey determined that one third of truck drivers have no plans to get vaccinated – a big worry for the U.S. economy!

### **IRS ON THE ATTACK TO RECOVER UNPAID PAYROLL TAXES!**

According to the IRS unreported and underreported employment taxes exceed \$77 billion annually. It is believed that 50% of these unpaid taxes is from self-employment taxes. The IRS and the Justice Department are striking aggressively at schemes used by small businesses to avoid payment of Social Security and Medicare taxes. In many instances employers withhold taxes from worker's paychecks, but spend these government funds for creditors. Also many small businesses pay their employees in cash in order to evade all forms of payroll taxes. Another method of payroll tax evasion is the misclassification of workers as independent contractors. The IRS has a new law to assist them in determining proper payroll tax obligations – it comes in the form of the new 1099-K reporting rules. Beginning in 2023, third party payment networks must report to the government transactions totaling \$600 or more for any and all payees! This sounds to us like an IRS attack against individuals and small business!

### **IRS INITIATES ATTACK ON LLC MEMBERS TO RECOVER SELF-EMPLOYMENT TAXES**

The large business division of the IRS has initiated a new risk campaign program against members of professional service firms that evade self-employment taxes on their distributive share of their firm's income. Recently the Tax Court ruled that members of law firms who actively participate in their Limited Liability Company business operations were not merely investors and therefore were liable for self-employment taxes. Future self-employment tax audits of professional service businesses is now an IRS priority. IRS has once again been sent to war against small business!

### **EMOTIONALLY DISTRESSED – THESE IRS RULES WILL DEPRESS YOU!**

Damages received for physical injuries and for medical reimbursement are tax free. However amounts paid for mental anguish are fully taxable! In a recent Tax Court case a woman sued her employer, alleging workplace harassment, emotional distress and physical injury. The parties settled and she received \$55,000 for emotional distress. The Tax Court ruled that only the \$7,000 that she paid for psychotherapy was tax-free – the remaining balance of \$48,000 was subject to income taxes – even though the mental distress was a direct result of the physical injury!

### **NEW POLITICAL REGIME – SAME OLD TAX TRAP! CRAP!**

- The IRS estimates that during 2020 they wrongly refunded in excess of \$16 billion in earned income credits; \$4.5 billion in refundable child credits and \$2.3 billion in American Opportunity credits.
- The annual depreciation caps for vehicles used in business have increased for 2021. Passenger auto owners can now take bonus depreciation of \$18,200 in the first year of service; followed by \$16,400 in the second year and \$9,800 in year three. Any remaining basis must be depreciated at the annual rate of \$5,860.
- Nonitemizers can write-off up to \$300 per individual for charitable cash contributions

on their 2021 federal income tax returns. Corporations can give charitable cash gifts up to 25% of their taxable income before contributions.

- IRS is aggressively auditing retirement plan loans – defaulting on a participant plan loan will result in taxable income and penalties.
- IRS has new simplified per diems for lodging, meals and incidentals for 2022. In high-cost areas employees can get up to \$296 each day tax-free. In lesser cost areas the stipend is capped at \$202.
- During 2021 the IRS received in excess of 9 million tax returns that contained math errors – a new record! The vast majority of errors were related to the recovery rebate credit.
- The IRS has a new updated guide for examining the construction industry. The focus is on the proper implementation of accounting methods.
- IRS has declared that the receiving of a demand note precludes the use of the installment method of profit recognition.
- Funds received by an individual relative to a disaster or emergency hardship from a charitable group or directly from the public are treated by the IRS as non-taxable gifts.
- For the 2020 year the first \$10,200 of unemployment benefits received were exempt from federal taxation – as long as your household total income did not exceed \$150,000! Sorry 2021 – no tax break this year!
- IRS has declared that ransom payments paid to unlock your computer systems are not “ordinary and necessary” business expenses. The IRS claims that ransom payments are illegal payments similar to bribes or kickbacks and therefore not deductible.

- Under current law, individuals who purchase stock of a “C” corporation with assets of \$50 million or less, directly from the company after September 27, 2010, and sell more than five years later, can deduct 100% of their gain when they sell! The exclusion is capped at \$10 million. Professional businesses do not qualify.
- Congress is preparing to raise taxes on cigarettes and vaping.
- It can take in excess of 16 weeks for the IRS to process an amended tax return.
- During 2019 150,514 taxpayers were subject to the alternative minimum tax; totaling \$2.6 billion in additional income taxes. Before the 2017 tax law changes 5.07 million returns generating \$36.4 billion in additional AMT taxes.
- The infrastructure bill will worsen inflation!

### **BIDEN/IRS TO ATTACK SMALL “S” CORPORATIONS**

The Biden administration wants to expand the 3.8% surtax to cover income derived by individuals from pass-through entities, such as “S” corporations, in which they participate. The attack also related to “S” corporations that pay low salaries to owners. These businesses pass the bulk of their profits through to the individual returns free of Social Security, Medicare taxes and the 3.8% surtax. This is the same President Biden who claims that he will not attack people who make less than \$400,000!

### **IRS DOESN'T VALUE RELATED PARTY VALUATION DISCOUNTS**

The District Court recently judicated an IRS case in which a parent gifted split-interests of land to his children. They discounted the land value due to lack of marketability. The IRS claimed that no discount should be available for a gift of a fractional interest unless the donor held the property in fractional form before the gift. The Court rejected the IRSs position!

## ZIMMERMAN & ASSOCIATES EVENTS

Z&A has a new member! On October 30, 2021, Shaun and Anna Zimmerman introduced the world to their beautiful first child "Isabella Blake Zimmerman"! Word has it that she was born with computer in hand – not true! However she did mumble something about the new infrastructure tax bill to the doctor. The lucky parents are almost as excited as the ecstatic grandparents! – That of course, being Bob and Carol. All are healthy, happy and love abounds in the Zimmerman family.

Our favorite local pub "JILLYS" has reopened after its devastating fire. It is bigger, better and just as friendly as ever! Congratulations to Scott and his great staff!

Bob and Carol have safely returned from their tug boat tour of Alaska. They had a "WHALE" of a good time. They observed the natural habitats of dozens of bears, lots of whales, many eagles, thousands of salmon and an abundance of happy seals. The icebergs were "COOL" and huge! The scenery fantastical!

This year Z&A is celebrating the Holidays with an all day party! On Friday December 17, you can find us battling it out at our annual Christmas party sports tournament!. This hard fought event will be followed by Santa's distribution of secret Santa gifts! This year our special guest is Donna Fleming; friend, client and Ravens tickets partner!

This year has been the foundation for social and economic recovery from a terrible pandemic that depressed and suppressed the entire world. Things are better! However the best news is that we have survived and the future is bright!

The coming holidays begin the introduction of a new and exciting era. People are once again having fun, celebrating special times and events and enjoying each other and life itself!

Love, life and peace to all – thank you for being an important and lasting imprint on our lives.

MERRY CHRISTMAS! HAPPY NEW YEAR!  
HAVE A LOVING HOLIDAY SEASON!

## FOOD FOR THOUGHT

How can "WE THE PEOPLE" learn to get along – when our politicians lead us with diversity, contempt, anger and fear?