

“THE NEWSLEDGER”

EMPLOYEE/INDEPENDENT CONTRACTOR/STATUORY EMPLOYEE

Are you an employee? Are you an independent contractor? Don't know which? Maybe you are neither or both! If you work for a company, but you are primarily independent in your business operations, you may be a “statutory employee”! Sellers of life insurance, home workers, agents or commissioned delivery drivers, traveling salespeople and other like kind employees are considered “statutory employees” by the IRS. These people are considered employees for Social Security and Medicare tax purposes; however they file a business schedule “C” with their individual 1040 tax form as if they are self-employed. Unlike regular employees, who cannot deduct their unreimbursed expenses, statutory employees can deduct business expenses on their schedule “C”. The business also qualifies for the 20% qualified business income deduction! This is the best of all tax worlds!

WHO REALLY PAYS INCOME TAXES TO SUPPORT THE FEDERAL GOVERNMENT?

The top 1% of individual filers pay 39% of all U.S. income taxes. The highest earning 5% of individuals pay 60% of the total income taxes. The top 10% of individual earners bare 71% of the income tax burden. The bottom 50% of income tax filers pay 3% of the total federal income tax take!

WHAT'S UP WORLD – READ ON IF YOU DARE!

- Nearly 200 countries have committed to the Paris climate agreement!

- The average baby boomer has worked for six different employers over the course of their career.
- As more satellites are entering orbit the government estimates there is already in excess of 6,000 tons of space junk in low-earth orbit. It is estimated that more than 25,000 new satellites will be launched during the next ten years. (See “Food For Thought”!)
- At present the IRS has yet to process 6.5 million 2020 individual income tax returns and 2.6 million amended personal income tax returns.
- Outstanding student loans presently stand at \$1.6 trillion.
- The median lifetime earnings of a worker with a bachelor's degree are \$2.8 million, versus \$2 million for those with an associate's degree and \$1.6 million for those with a high school diploma.
- Sports betting is active in 30 states and the District of Columbia.
- In 2021 Congress held a public hearing on UFOs. The first time in 60 years! They reviewed more than 140 unexplained sightings that military pilots have encountered in recent years.
- Taxpayers whose liabilities exceed the fair market value of their assets can exclude income from forgiven debts up to the amount of their insolvency.

- The world's major central banks are now getting set for the most aggressive tightening of credit and increase in interest rates since the late 1980s.
- Mortgage applications recently hit their lowest level since 2018. Building costs are up 35% since the start of the pandemic.
- Electric rates are up 8.6% over last year!
- Why are you paying more at the pump? The White House is discouraging oil and gas drilling and implementing regulations that will make building pipelines and the like more difficult.
- Heating oil prices could set new records this winter! Ditto for propane!
- There is presently a 100,000 unit shortage of truck trailers.
- In excess of 10% of ocean freight capacity is still delayed at various ports.
- The Federal Reserve is aggressively raising interest rates in an effort to control inflation...such hikes usually push the economy into recession.
- Rhode Island is the newest state to jump aboard the pro-marijuana bandwagon. Delaware could be number twenty!
- In a world of constant computer technology threats the cybersecurity industry is booming.
- Online shopping has hit a plateau – online sellers are now opening physical stores or partnering with existing outlets to boost sales.
- Cryptocurrencies are falling...they are moving more closely with other financial markets now.
- If you want to build a swimming pool...beware; prices are soaring! A Pool

Magazine survey said builders intend to raise prices by more than 30% this year in response to major cost increases.

- Are student loans really a problem? Most college presidents expressed confidence that their institutions will be stable for the next ten years.
- U.S. travel is expected to totally recover by 2023; global passenger traffic by 2024.
- The U.S. dollar status as the world's currency is not in danger!
- It takes 7 to 10 years to get a new mine up and running in the U.S.; compared to 2-3 years in Canada. The U.S. government, in support of environmental groups, say the U.S. needs to find ways to increase its supply of critical minerals without scarring the landscape. This is why we can't compete!
- Nearly 5 million subscribers eliminated traditional cable T.V. last year – cable coverage will drop below 50% next year.
- America, again, in 2021 set a new record for gambling spending, exceeding \$53 billion in revenue. Nevada was still top dog with \$13.2 billion!
- Russia supplied approximately 11% of the total world oil prior to its war.
- Food prices grew by 6.3% last year!
- Audiobooks are now being narrated by artificial intelligence – there are over 300 voices in nearly 80 languages. Synthetic narration can cost as little as \$1,000 per book; a human narrator can cost up to \$10,000 per book.
- Federal interest rate hikes mean a stronger dollar as capital flows to higher-yielding assets.
- Approximately 38% of final computer chip assembly is done by China firms.

- It is expected that by 2030 more than 50% of new vehicle sales in the U.S. will be electric.
- Federal regulators are cracking down on banks that abuse overdraft fees. Banks earned more than \$15 billion from overdraft fees in 2019. Banks are now offering overdraft-free account options – at a cost.
- The first railroad linking the U.S., Canada and Mexico could soon be a reality. With the potential planned merger of the Canadian Pacific Railway, a railroad directly connecting all three nations would be accomplished. The U.S. has to approve the merger!
- Expect the Federal government to increase its interest rate by at least another 2% by year's end.
- Inflation this year should approach 9%; next few years 3 to 4% inflation is anticipated.

IRS TO CHARGE/PAY HIGHER INTEREST RATES IN 2022

IRS's interest rates are increasing beginning in the third quarter of 2022. Overdue taxes will be charged 5%; except for corporations that owe more than \$100,000 in back taxes; they will be charged 7%. Refunds will be paid a rate of 5% for individuals; 4% for corporations on refunds up to \$10,000; and 2 ½% on corporate refunds exceeding \$10,000. There is a 45 day lag period before IRS pays any interest on refunds.

NONTRADITIONAL IRA ASSETS BEWARE!

After doing some "online research" a woman set up a self-directed IRA and an LLC wholly owned by the IRA, naming herself as the LLC manager. She funded the new IRA through direct transfers from two other qualified retirement accounts. The LLC bought \$400,000 in gold and silver coins, which she put in her home safe. The IRS claimed that the woman had a taxable IRA distribution when she got physical custody of the coins. The Tax Court declared that because she had unfettered and

actual control over the IRA assets, which is a definite violation of the rules, the distribution was taxable. She also had to pay the 10% early withdraw penalty!

GOVERNMENT AND TAXES NEVER DIE – THEY JUST GET MORE CONTROLLING AND CONFUSING OVER ETERNITY!

- The lifetime estate and gift tax exemption for individuals increased to \$12,060,000 for 2022; and \$24,120,000 for couples who elect portability after the first spouse's death. The exemption will be reduced to \$5 million after 2025.
- The annual gift tax exclusion increased to \$16,000 per donee for 2022.
- Nurses supplied by private-duty nursing services are employees not independent contractors – they were controlled by the company and clients paid the fees to the company.
- The fee to get an IRS private letter ruling approving late IRA rollovers is \$10,000!
- A charity officer who gave online seminars was not an independent contractor – he was a "statutory employee"!
- The accumulated earnings tax is 20% of earnings accumulated in excess of \$250,000 or the amount reasonably needed to run your business. In lieu of the new lower 21% "C" corporate income tax rate, the IRS is aggressively auditing high retained earnings companies.
- The new IRS program – "Where's My Refund", allows individuals to check the status of their tax refunds on filed 1040s for 2019, 2020 and 2021.
- Freddie Mac is currently assessing the requirements to support the purchase of manufactured housing – allowing for Freddie Mac to issue personal property loans.

- The swap or exchange of a life insurance contract for a long-term care policy is a tax-free exchange!
- Couples should consider having one spouse retire at 62 and collect Social Security, while the other spouse waits until they are 70 to get maximum benefits. At the death of either spouse the other spouse will receive the higher benefit until death.
- The federal gas tax is 18.4 cents per gallon. The proposal to temporarily suspend the tax would amount to next to nothing per fill-up!
- The IRS is attempting to hire 10,000 new employees this year!
- Starting in 2023 third-party payment networks will have to prepare and send IRS form 1099-K to payees who are paid over \$600 in a year for goods and/or services.
- The standard deduction in 2022 will be \$12,950 for singles; \$25,900 for marrieds.
- Proceeds received for physical injuries or illness are tax free – damages received for emotional distress are generally fully taxable.
- Bankruptcy law exempts up to \$1,362,800 of IRA assets from creditors. However, if you ever put excess contributions into your IRA the bankruptcy exemption is forfeited!
- The Social Security wage base for 2022 is \$147,000. In 2023 the wage base is expected to increase to \$155,100.
- The cap for employer-provided tax-free mass transit passes and parking in 2022 goes up to \$280 a month.
- The standard mileage rate for business driving increases to 58.5 cents per mile for 2022.

- Beginning in 2022 “C” corporations with annual gross receipts below \$27 million over the previous three years can use the cash method of accounting for income tax reporting purposes.

INFRASTRUCTURE FUNDS INSUFFICIENT

Last year’s infrastructure legislation allocated “\$17.1 billion” to U.S. ports and waterways. Some of the funds are to be used for dredging allowing for the accommodation of more and bigger ships. The problem is that the U.S. lacks access to the most advanced dredging equipment; most of which is built and owned by Dutch and Belgian companies. We can thank a 1906 law that requires U.S. dredging work to be performed by American labor and ships. The result is that these projects take longer and are often cost prohibitive. To exacerbate this problem the Army Corps of Engineers claims to already have a “\$40 billion” backlog of projects!

IRS NOT VERY CHARITABLE WHEN IT COMES TO “YOUR” DONATIONS!

You must get contemporaneous written acknowledgements from donees for gifts of \$250 or more; and file form 8283 for noncash donations over \$500. In a recent Tax Court case a woman donated jewelry and artifacts to a museum. Both parties signed a deed of gift card that listed the donated items; however because the deed did not disclose whether the museum provided any goods or services in exchange for the gifts the Tax Court totally disallowed her donation write-off!

BUSINESS CAN NOT DEDUCT EXPENSES OF POTENTIAL EMPLOYEE/SUBCONTRACTOR

A taxpayer who owned all of the shares of a regular “C” painting corporation caused the business to pay tuition for a computer coding class of a friend. The friend was not an employee of the company. After taking the class the friend applied his new skills for no compensation to the betterment and improvement of the company. The IRS declared the tuition costs to be nondeductible expenses and to be chargeable to the stockholder as taxable dividends!

“B”OB “A”ND “D”AVES DAD JOKES

Why did the football coach go to the bank? To get his quarter back.

What state is known for small drinks? Minnesota.

What happens when a snowman throws a tantrum? He has a meltdown.

How do you fix a broken pumpkin? With a pumpkin patch.

What happens when a strawberry gets run over crossing the street? A traffic jam.

Why are fish so smart? They live in schools.

Why did the woman get emotional when she looked at the calendar? She knew her days were numbered.

What has ears but can not hear? A cornfield.

Why do you knock on the refrigerator door before you open it? There may be salad dressing in there.

What did the ocean say to the beach? Nothing it just waved.

What do you call a belt made of watches? A waste of time.

When does a joke become a dad joke? When it becomes apparent.

ZIMMERMAN & ASSOCIATES EVENTS

First Rich and Mary bought a wonderful new home; augmented it with a fantastic swimming pool with all the trimmings; now they added a living dream. Maddie, a beautiful border collie, has entered their lives to entertain, bemuse and lovingly torture the happy couple.

Once again Z&A's great friend, Donna Fleming, outdid herself by putting on a grand "Ravens Roost" swim party. The games, food and beer were great! Somehow she talked our own professional outdoor chef, Bob Zimmerman, into doing the grilling...and we all thought that he had retired!

We are sending out a Z&A "FRENCH KISS" to Dave's son Jordan Huebschman for being awarded the 2022 "Jacqueline Long French Scholarship" award from Millersville University. If you see Dave, he can now afford to buy you a drink at the local pub – "au revoir" to tuition!

Bob and Carol joined their daughter Jamie in Bend, Oregon, as she is putting the finishing touches on her second master's degree. Bob was thrilled to visit Bend, as there were 23 brew pubs in this small town. Carol was happy because she was able to play cowgirl at a western style town called "Sisters". Oregon is known as the volcano state. Carol led Bob through a four mile volcano cave hike – the temperature was a consistent 42 degrees...BBRRRR! Bob had on shorts and a T-shirt! Carol was appropriately dressed. Who ever said Bob had any brains?

Z&A is proud and excited to introduce our readers to our new office manager, Brittany Lopez. Brittany began her career by protecting us all as a proud member of the United States Army. Now she has joined our Z&A team to fight and protect our valued clients. Brittany is a team player; while raising a threesome; attending college and heading up our bookkeeping department, she has been able to guide our computer processing team to achieve the unachievable! She also makes us all "LAUGH"! From all of us at Z&A...thank you Brittany for choosing us! We truly value you!

FOOD FOR THOUGHT

TWINKLE, TWINKLE LITTLE LIGHT. ARE YOU A STAR OR A SATELITE? IT'S HARD TO TELL – YOU ARE ALL SO BRIGHT! TWINKLE, TWINKLE LITTLE LIGHT!