Andrew 0:05

Hello, and welcome to the JGUA Financial Commentary Podcast. I'm your host, Andrew Baron and in this episode, I talk to Dan Huff about a topic that might be top of mind for a lot of people this time of the year, taxes. But first, a short disclaimer. The contents of this podcast are strictly for informational purposes only, and nothing said shall be taken as investment, tax, or legal advice. Any strategies discussed may not be suitable for the listeners specifically and JGUA encourages consulting with your advisor before implementing any strategies to ensure they meet your individual objectives. And with that, welcome to the podcast Don.

Don 0:46

Hello, Andrew. It's a pleasure to be here. I hope I can be helpful.

Andrew 0:52

Yes, I know we're recording at the beginning of the tax season, but are you already busy?

Don 0:57

I'm definitely busy. It's been a struggle with all the delays by the government. But all is going well.

Andrew 1:04

So to start as head of our tax department, and having been with the firm for over 15 years, how have you seen the firm and tax department develop?

Don 1:12

It's been quite the ride, that's for sure. We've hired many professionals during this time to prepare anything from individual returns to private foundation returns. During this time, I've seen the number of returns, we prepare grow from approximately 1200 to now 1500 returns.

Andrew 1:33

That's a lot. I know, I do a little tiny part of that. So I can only imagine what the rest of you in the tax department do. I was wondering if you could share with us a story of maybe something you've done for a client that's above and beyond what's traditionally thought of as tax preparation services.

Don 1:49

You know, I guess if I think about it, I would say residency audits. New York is known for trying to capture everyone's income and tax them on it. We've been very convincing with regard to changing the residency for a client. Basically, when they moved to another state, they have to come up with a way to establish that. It's takes a fair amount of effort but nonetheless, we've been very successful with getting a positive response from New York. We have many clients that fly south, and they want to avoid taxes. Basically, what we've seen is New York come back and try to tax that with a fair amount of effort in convincing New York, we've been quite successful.

Andrew 2:45

One of the many things we try and do as a comprehensive firm. I was wondering if you could tell our audience some reasons it would make sense to file their returns ahead of the deadline.

Don 2:57

Of course the number one reason is to get your refund faster. That assumes obviously that you're expecting a refund. If I think this through one of the other items that is basically very, very important. As of right now, there's a lot of identity theft out there. The sooner you get your return in the less likely this will happen. One less thing to worry about is even if you owe payment is not required until April 15. The deadline. There's a thought process that once you file your return you have to pay, but truly, you do not have to send the payment in until April 15, even if you file it today. So with that said, I mean, it's one less thing off your plate and one less thing to worry about.

Andrew 3:51

Yes and as a planner, it's nice to know what our liability is, instead of just making the estimate. It's nice to plan ahead, obviously. While many might think it's too late to change what happened in 2020, what are some things listeners can do to reduce their tax liability for the 2020 tax year?

Don 4:11

I guess the one thing that sticks out the most is making additional retirement contributions. You know, they can make a contribution to their traditional IRA or their SEP IRA. This assumes obviously that they meet the thresholds. I guess the next item, I would say if a taxpayer has an HSA, which is a Health Savings Account, they should be maximizing the amount of contributions to that plan. The one thing that probably most people don't think about is maximizing education credits. Oftentimes taxpayers do not qualify because of their income situation. However, their dependent child that's going to college might qualify. Some people think that if they don't qualify that, they won't be able to take the credit. Where in fact, if a child takes the credit, which most people don't know, they basically will be marked as a dependent on their parents returned, they will not qualify for the refundable piece. However, it only works in situations that your dependent has a tax liability. So it's definitely something to look at. And I guess the last item, I would say, is looking at your filing status, there could be a benefit to file separate versus married filing joint for that year. But it's unlikely that anything will happen with regard to this, based on the new tax laws, but there is a chance so it's something to consider. Many taxpayers have a tendency to think if their spouse passed, that they can no longer file joint. It’s the total opposite, it's as if they're still filing joint. So questions should be asked. And, you know, I mean, there'll be a positive outcome if these questions are asked.

Andrew 6:16

In that same vein, what are some things listeners can do to reduce their taxes moving forward in 2021?

Don 6:24

A couple items, that I can think of off the top is making a qualified charitable distribution. What that means is, from your RMD, which your Required Minimum Distribution from an IRA, you can do a direct charitable distribution to the IRA, it will reduce AGI and reduce income at the same time, there's a lot of benefit to that, and taxpayers should consider it. I would say the other item is there's ways to avoid RMD if someone is age 70 plus, and still employed. What a taxpayer can do, they can roll an IRA into their qualified retirement account. And basically, as a result, they avoid taking that distribution otherwise. So it's definitely something to consider.

Andrew 7:23

I know some people just psychologically hate paying a big lump sum to the government at the end of the year in taxes. What are some things they can do to change that?

Don 7:33

I would say that the number one item is adjusting withholding on their wages. That's assuming that the client is still employed. You know, for those that are no longer employed, adjusting the withholding on retirement distributions is the other option. Some taxpayers don't like to make quarterly estimates, which is the third item. What they can do, if that's the case, is go back and adjust the withholding and their wages or adjust the withholding on their retirement distributions. If they choose to do so they can make quarterly payments, but many taxpayers don't like it.

Andrew 8:15

Yes if you don't like paying a big lump sum, maybe four, isn't that much of a better solution for some people?

Don 8:20

Yes, definitely.

Andrew 8:22

You will handle quite a few returns, what are some things that clients think are deductible, but maybe aren't allowed any longer?

Don 8:32

I would say the main impact that the most recent tax laws, has been on itemized deductions. There's something called the SALT deduction, which is the state and local tax deduction. That is now capped at $10,000 for married filing joint taxpayers. This also includes real estate taxes. So it's not just state and local income tax. As a result, many taxpayers now are using the standard deduction. So even though it makes us tax professionals, happier and it's easier to do a return, it's really to the detriment of the taxpayer. The other item that comes to mind is in the same vein, it is an itemized deduction, are miscellaneous itemized deductions, which includes investment and tax advice. It's definitely had an impact on our clients. However, I guess the funniest part of this is on the New York side, you can still take those deductions, you can still deduct real estate taxes, you can still deduct miscellaneous itemized. So it's something that has to be thought about when preparing. You can take the standard deduction on the federal and qualify on New York to take itemized due to this change in law.

Andrew 10:01

I think that's actually a really good point, Don. I don't think everyone's aware that you can do the standard on federal and then itemized for the state. Did you have any closing thoughts Don?

Don 10:12

You know, I mean, as, as we started out, I would say get your taxes done sooner than later. So you can take advantage of some of the things we talked about. But be careful that it makes sense to file early before the return is filed. You know, there's so many things that can result in a negative outcome. And anyone feel free to call.

Andrew 10:35

Always appreciate your thoughts and insights, Don. Thank you for being part of this.

Don 10:39

Yeah, thank you.

Andrew 10:40

And thank you to all of our listeners. I know we touched on a number of different topics. So if our audience has any additional questions, please send them to info@jgua.com and please visit our website for additional content. Until next time, stay smart.