Personal attention. Verifiable results.

DMJ & Co., PLLC PRESENTS

Year-End Personal Tax Planning

2020 Year-End Personal Tax Planning

Dear Clients and Friends:

Greetings!

As 2020 draws to a close, many of us are looking forward to brighter, more profitable, and COVID-free days ahead! We are humbled by the faith that you continue to place in us as we aspire to be your most trusted financial advisor.

On a positive note for DMJ, 2020 has also brought new facilities for our Durham office. We have moved four blocks to new offices at the South Court building – 3211 Shannon Rd., Suite 200. Drop by if you are in the neighborhood!

The following is our annual year-end tax planning letter, focused on individual taxpayers. Feel free to share this letter with others that may find it of interest. If this letter was shared with you, and you would like to receive your own copy in the future, please connect with us at contact@dmj.com to be included in future mailings.

If you are a business owner, be sure that you also receive a copy of our year-end letter that focuses on business issues by emailing us at contact@dmj.com. The business letter will include extensive coverage of the PPP ("paycheck protection program") loan program and its effect on tax planning. The letter should be available by early November.

One policy note. Please sign and return your engagement letter when it arrives in the mail as part of our tax organizer. Our firm policy does not allow us to complete your tax return until we have this signed document.

New tax legislation

Since the release of our 2019 year-end tax planning letter, two major pieces of tax legislation were passed. We will begin with a summary of those. Please contact us if you want to discuss how any of these changes affect your personal situation. This discussion is necessarily a high-level generalization – talk with us before taking action on these items. This discussion focuses on the personal highlights of the Acts. See our business year-end tax letter for discussion of those items.

Setting Every Community Up for Retirement Enhancement Act (SECURE)

On December 20, 2019, the President signed the Consolidated Appropriations Act of 2020, which included the Setting Every Community Up for Retirement Enhancement Act, or SECURE Act. The primary focus of this Act was to make changes to tax rules on retirement matters.

All changes begin with the 2020 tax year, unless otherwise noted.

- Those with earned income past age 70½ can continue to make IRA ("individual retirement account") contributions. Formerly, this was prohibited.
- For those who turn age 70½ after 2019, RMDs ("required minimum distributions") are not required to begin until the year they attain age 72. Note the CARES Act, discussed next, which made another change here for 2020 only.
- IRAs or retirement plans of decedents must now be distributed to the beneficiary within ten years. No longer can the account be "stretched" for decades over the life expectancy of a much younger beneficiary. Exceptions include spouses, disabled beneficiaries, chronically ill beneficiaries, those not more than ten years younger, and minor children (until they reach age 18, in most states).
- Up to $5,000 can be withdrawn from an IRA or retirement plan for childbirth or adoption expenses. These distributions are exempt from the 10% penalty for premature distributions, but remain subject to income tax.
- Up to $10,000 of student loans can be paid with 529 plan funds.

Some other changes in the Consolidated Act include the following extensions through 2020 –

- Deduction for qualified higher education expenses up to $4,000, for single filers with AGI up to $65,000 (married-filing-jointly $130,000). Deduction becomes $2,000 for AGI of $65,000 to $80,000 single ($130,000 to $160,000 married jointly). No deduction past these amounts.
- Deduction of mortgage insurance premiums as residence interest.
- Exclusion from income of up to $2 million of debt forgiveness on a principal residence.

The Coronavirus Aid, Relief, and Economic Security Act (CARES)

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act – also known as the CARES Act. This Act was the most expensive single piece of legislation in American history, with the intent of providing relief to individuals and businesses from the unprecedented and sudden economic slowdown from the COVID-19 Coronavirus pandemic.

All changes are effective for the 2020 tax year unless otherwise noted.

- Taxpayers received economic stimulus payments generally based on the size of their household, based on their 2018 or 2019 income level. With your year-end organizer, be sure to let us know how much you received, because if you are entitled to more based on 2020 income, then a credit will be reflected on your 2020 income tax return.
- The requirement to take a RMD from your IRA or retirement plan account was waived for 2020.
- For 2020 *only*, those who claim the standard deduction are allowed an additional deduction for up to $300 of cash charitable contributions. This means that all individuals need to give us their cash charitable contributions for 2020, whether they will itemize or not. This includes child filers.
- Special tax rules apply to up-to-$100,000 qualifying Coronavirus-related retirement distributions taken in 2020.
    - Qualifying distributions are those made to an individual –
        - Diagnosed with COVID-19,
        - Whose spouse or dependent is diagnosed with COVID-19, **or**
        - Who experiences adverse financial consequences as a result of: being quarantined; being furloughed, laid off, or having work hours reduced due to COVID-19; being unable to work due to lack of child care due to COVID-19; closing or reduced hours of a business owned or operated by the individual; or other factors determined by the IRS (no guidance has been released yet on what these factors are).
    - The special tax rules for these distributions include –
        - No 10% premature distribution penalty.
        - Income tax on the distribution is spread equally over the 2020, 2021, and 2022 years, unless the taxpayer elects to report it all in 2020.
        - The distribution can be returned and rolled back into the retirement account at any time in the 3-year window beginning with the distribution date.
- Net operating loss carrybacks return, but only for 2018, 2019, and 2020. Losses in these years can be carried back for five years.
- Self-employed individuals can defer payment of 50% of the 12.4% FICA part of the self-employment tax. If deferred, half is due 12/31/2021 and the other half is due 12/31/2022. This is the FICA related to self-employed income earned 3/27/2020 through 12/31/2020.
- The Act included a long-sought retroactive fix to the depreciation of Qualified Improvement Property. If your tax return includes non-residential rentals, additional depreciation may be available. Talk to us if you think you are in this situation.

General tax updates

Many of our clients report significant delays in processing paper mail to the IRS, including cashing of payment checks. We are aware of this situation, and it is reported by other taxpayers nationwide. The Service has been hit hard by COVID with large-scale shutdowns of their Service Centers. As a result, the processing of paper documents is seriously behind schedule, with a backlog, as of this writing, of about 5 million unopened envelopes. We are advised to remain patient as they work through these documents.

The IRS continues to send out computer-generated notices based on computer-based document-matching processes. Since IRS notices generated in this way are sometimes incorrect, you should consult with us about the appropriate response. Never ignore an IRS notice – it will not go away. Deal with it promptly to reduce any penalties and interest that may accrue.

IRS adjusts tax amounts for inflation

The estate tax exemption was doubled as part of the Tax Cuts and Jobs Act of 2017. For 2020, the estate tax exemption is now $11.58 million (compared to $11.40 million in 2019). This doubling is currently scheduled to expire on 12/31/2025. The exemption will increase by another $120,000 in 2021 to $11.70 million. Together, a married couple can pass a 2020 estate valued at $23.16 million to their heirs without paying federal estate tax because of the portability provision. It is estimated that now 99.8% of all estates will not owe the estate tax, but the need for proper planning is still present to make sure that this works as intended for you. This transfer amount is reduced during your lifetime by taxable gift tax transactions, so your total estate tax exemption could be less if taxable gifts have occurred in the past.

If Joe Biden is elected President in November, you might want to discuss your estate plans with us and your attorney. He is expected to push for a significant reduction in this estate tax exemption to something near $5 million per taxpayer. If this change would adversely affect you, estate planning moves should now be considered to lock in the higher amounts.

The annual gift tax exclusion remains at $15,000 per recipient in 2020 or 2021 ($30,000 if married and using a gift-splitting election, or if each spouse uses separate funds). By maximizing the use of these gifts annually, taxpayers can transfer significant wealth out of their estate without using any of their lifetime estate exemption.

Taxpayers who have a health savings account (“HSA”) under a high-deductible health plan (“HDHP”) have a contribution limit this year of $7,100 for a family, an increase of $100 from 2019. The single taxpayer contribution limit is increased to $3,550, compared to $3,500 in 2019. Taxpayers are allowed an additional $1,000 contribution if you are age 55 or older. To be considered an HDHP, out-of-pocket maximums of $6,900 per individual ($6,750 in 2019) and $13,800 for a family ($13,500 in 2019) apply. Minimum deductibles are $1,400 per individual and $2,800 for a family.

Retirement plan rules

A good tax strategy is to participate in your employer's 401(k) plan. You may elect to contribute up to $19,500 for 2020 before taxes, and the additional catch-up contribution for employees who are age 50 and above is $6,500. Refer to your employer's plan to confirm whether catch-up contributions are permitted. These increased contribution limits also apply to 403(b) plans and most 457 plans. The under-age-50 deferral amount was $19,000 in 2019.

Some 401(k) plans allow you to make an after-tax Roth contribution, which will not reduce your current taxable income. However, you generally will not owe tax on qualified distributions when these funds are withdrawn in retirement. Note that if you make the maximum retirement deferral possible, you are actually deferring more with a Roth 401(k) because, economically, you are actually contributing both the deferral and the tax on the deferral.

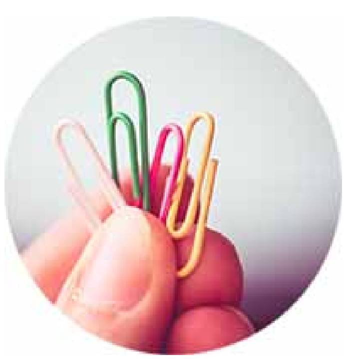
The IRA contribution limit remains $6,000 in 2020, with an additional $1,000 catch-up contribution allowed for people 50 years of age or older.

For those with a SIMPLE plan, the deferral increased for 2020 from $13,000 to $13,500, with an additional $3,000 catch-up contribution.

You or your spouse must have earned income to contribute to either a traditional or a Roth IRA. Only taxpayers with modified AGI below $206,000 joint and $139,000 single are permitted to contribute to a Roth IRA. If a workplace retirement plan covers you or your spouse, modified AGI also controls your ability to deduct your contribution to a traditional IRA, which ends at $206,000 jointly.

There is no AGI limit on your or your spouse's deduction if neither of you are covered by an employer plan. But if either of you are covered by an employer plan, and your modified AGI falls within the phase-out range, a partial contribution/deduction could still be allowed.

If you would like to contribute to a Roth IRA, but your income exceeds the threshold, consider making a non-deductible contribution to a traditional IRA for 2020 by April 15, 2021, and then later convert the regular IRA to a Roth IRA. **Consult with your DMJ professional about the tax consequences of the conversion, <u>especially if you have funds in other traditional IRAs</u>, as this could dramatically change the tax impact.**



Please do not forget that you may make only one IRA-to-IRA indirect rollover per year, which must be re-deposited within 60 days. This does not limit direct rollovers from trustee to trustee. Any attempted rollover after the first one will be treated as a withdrawal and taxed at regular rates – with potentially a 10 percent early withdrawal penalty. This attempted rollover re-contribution will be subject to regular IRA contribution limits, meaning that, if the amount of funds in the account exceeds your contribution limit, it will be subject to a 6 percent excise tax.

You may find that 2020 is an "off year" for your taxable income, and that you believe that higher tax rates are in the future. Your lower 2020 income could be the result of lower business profits due to the Coronavirus, or the lack of a 2020 RMD requirement. These facts would suggest that this is great time to convert some or all of your regular IRA account to a Roth IRA. Remember that this means that you pay ordinary income tax on the balance on conversion, but the Roth IRA is exempt from tax in the future if you follow the basic Roth rules. Remember also that this means that you must come up with the tax on the conversion from non-retirement funds.

Your IRA's value might have suffered from the economic downturn. This strategy will allow you to pay tax at a "sale" price, while allowing any recovery in the value to happen in a tax free investment structure.

As mentioned earlier, when you reach age 72, you are required to begin taking required minimum distributions (RMDs) from your IRAs and other retirement accounts. Roth IRAs are not subject to this rule. We can assist with the computation of the minimum amount needed to withdraw. For the first year only in 2021 (if you turn age 72 in 2020 or 2021), you have a grace period to take the initial 2021 year withdrawal until April 1, 2022. Often this is not a good idea, because a second withdrawal for 2022 would still need to be done by December 31, 2022, resulting in two taxable retirement withdrawals subject to income tax in one year, potentially at higher tax rates. In addition, these rules mandate the minimum to withdraw annually after age 72 – there is no maximum distribution for these taxpayers.

For RMDs from retirement accounts that are inherited (including Roth IRAs), a completely different set of rules apply, and most taxpayers cannot wait until age 72. Consult with us if you are unsure of what action is required.

Again, required minimum distributions are waived for 2020 under the CARES Act.

Remember also that the provision that allowed an individual who is at least 70½ years old to make a qualified charitable distribution ("QCD") of up to $100,000 from an IRA directly to a charity has been made permanent. The QCD can satisfy all or part of your RMD requirement. This is generally a good idea for taxpayers who (1) are subject to the RMD rules, and (2) have charitable commitments to satisfy. It is also a good plan where the taxpayers cannot itemize deductions, or receive little benefit from doing so, due to high standard deductions; the house is paid for, etc. It is arguably a better idea to first use long-term significantly appreciated stock for your charitable giving if you can itemize (discussed later in this letter), but a QCD is also a good idea.

Note also that before the SECURE Act, the RMD starting age was moved to 72. However, the ability to make QCDs remains at age 70½. These ages are no longer connected.

Self-employed individuals can have a Simplified Employee Pension (SEP) plan. They may contribute as much as 20 percent of their net earnings from self-employment, not including contributions to themselves. The contribution limit is $57,000 in 2020. The self-employed individual may set up a SEP plan as late as the due date, including extensions, of their 2020 income tax return.

An individual, or solo, 401(k) is another option for the self-employed. For 2020, a self-employed individual, as an employee, may defer up to $19,500 ($26,000 for age 50 or older) of annual compensation (an increase of $500 / $1000 from 2019). Acting as the employer, the individual may contribute 25 percent of net profits, including the deferred $19,500, up to a maximum contribution of $57,000.

Summary of 2020 Versus 2019 Amounts		
	2020	**2019**
Standard Deduction		
Single or married filing separately	$12,400	$12,200
Married filing jointly or surviving spouse	$24,800	$24,400
Head of household	$18,650	$18,350
Health Savings Account Limitation		
Single	$3,550	$3,500
Family	$7,100	$7,000
Plus catch-up contribution for age 55 & over	$1,000	$1,000
401(k) Limitation	$19,500	$19,000
Plus catch-up contribution for age 50 & over, if permitted by employer plan	$6,500	$6,000
SIMPLE Plan Limitation	$13,500	$13,000
Plus catch-up contribution for age 50 & over, if permitted by employer plan	$3,000	$3,000
Estate Tax Exemption	$11,580,000	$11,400,000
Foreign Earned Income Exclusion	$107,600	$105,900

Make the most of long-term capital gains

- While avoiding or deferring tax may be your primary goal, to the extent there is income to report, the income of choice is long-term capital gain (more than one year holding period) thanks to the favorable tax rates available. Short-term capital gain is taxed at your ordinary income tax rate.
- If you hold a capital asset for more than one year before selling it, your capital gain is long-term. For many taxpayers, long-term capital gain is taxed at rates no higher than 15 percent, plus state tax.
    - But taxpayers with income below certain limits have a long-term capital gains tax rate of 0 percent – see the chart below. This is a significant benefit for taxpayers of lower income. Children may fall into this category, but there are special rules for taxes on unearned income for dependent children.
    - Taxpayers whose income exceeds the thresholds set for the now-repealed 39.6 percent ordinary tax rate are subject to a 20 percent rate on capital gain. See the chart below.

- If the long-term capital gains rates of 0, 15, or 20 percent are not complicated enough, keep in mind that special rates of 25 percent can apply to certain real estate, and 28 percent to certain collectibles. In addition, gains on the sale of certain C corporations held for more than five years can qualify for a 0 percent rate if certain tests are met (see below). Talk to your tax advisor before you assume which long-term capital gains rate would apply. In any event, the 3.8% tax on Net Investment Income could also apply in addition to these capital gains rates.

- Remember that you can use capital losses, including worthless securities and bad debts, to offset capital gains. If capital losses exceed capital gains during the year, you can offset ordinary income by up to $3,000 of your losses. Then you can carry forward any capital losses in excess of a net of $3,000 into the next tax year.
- You should be careful not to violate the "wash sale" rule by buying an asset nearly identical to the one you sold at a loss within 30 days before or after the sale. Otherwise, the wash sale rule will prevent you from claiming the loss immediately. While wash sale losses are deferred, wash sale gains are fully taxable. It is important to discuss the meaning of "nearly" or "substantially" identical assets with your tax advisor.
- The sale of certain stock could produce a gain that can be partially or entirely excluded from federal income by rule. This is known as Section 1202 stock, or qualified small business ("QSB") stock. Talk to us if you think you have this type of gain.
  - The tests to qualify include –
    - The corporation must be a domestic C-corporation, and the stock must be issued after 8/9/1993 and held for at least five years.
    - All times from 8/9/1993 and through the date of issuance of stock, the gross assets of the corporation must not have exceeded $50 million. Also immediately after issuance, aggregate gross assets must not exceed $50 million.
    - The stock must have been acquired directly from the issuer (not from another stockholder). Stock acquired from the original owner through gifts maintain their character as Section 1202 Stock.
    - At least 80% of the corporation's assets must have been used in the active conduct of a trade or business, during substantially all of the shareholder's holding period.
    - At least 80% of the assets of the corporation must be used in one or more qualified businesses, which <u>excludes</u> banking/finance, farming, mining/oil, hotels and restaurants, and professional services or similar businesses where the principal asset is the reputation or skill of one or more employees.
  - If these tests are met, the gain on sale of the stock can be excluded as follows, depending on when the stock is acquired –
    - If acquired after 8/9/1993 and before 2/18/2009, the exclusion is 50%.
    - If acquired after 2/17/2009 and before 9/28/2010, the exclusion is 75%.
    - If acquired after 9/27/2010, the exclusion is 100%.
  - The gain available for exclusion is limited to the greater of –
    - $10 million (reduced by eligible gain taken in prior years), and
    - 10 times the basis of the QSB stock sold during that year.

Long-Term Capital Gains Rate Brackets				
	Single	**Joint**	**Head of Household**	**Trusts**
0% bracket	$0 – $40,000	$0 - $80,000	$0 - $53,600	$0 - $2,650
15% bracket begins	$40,001	$80,001	$53,601	$2,651
20% bracket begins	$441,451	$496,601	$469,051	$13,151

Note that the 3.8% tax on Net Investment Income may also apply. Also, consider state income tax.

Charitable deductions

As most taxpayers are aware, federal tax law allows a deduction for contributions made to qualified IRS tax-exempt organizations. Before making such contributions, however, you should become familiar with some of the laws and limitations on contributions so you can maximize the tax benefit of the deduction.

The contribution must be made to a qualified IRS tax-exempt organization. The IRS maintains an online tool **(http://tinyurl.com/a72f74x)** that simplifies the search for organizations that meet the criteria.

It should be noted that churches are generally not on this list as they are automatically exempt. Also, note that nonprofit status is granted by the state when the organization applies for its corporate charter as a nonprofit organization. Tax-exempt status is granted by the IRS upon application, after formative approval by the state.

The donor cannot exercise undue control over the contribution. For example, you cannot make a contribution to a church, specifying that the funds be used to pay the medical bills of a good friend. A contribution may be made to the church benevolent fund with an expressed preference that the funds be used to help your friend, but the request may not be a condition of the gift.

The contribution must be made by December 31 of that year. A check mailed with a December 31 postmark is acceptable. A credit card charge is deductible when charged, not when the credit card bill is paid. The organization cannot "hold the books open" for a few days after the end of the year and credit those contributions to the year just ended. Be sure to keep a receipt of all contributions of $250 or more. For contributions over $250, you must have a written statement from the charity that no goods or services were received prior to filing your tax return.

There are limitations on the amount of charitable contributions that you may deduct. For individuals, the limit was 60 percent of AGI, or 30 percent of AGI if the donation is capital gain property. For 2020 only, the CARES Act suspended the 60% limit for cash contributions and the limit is 100% of AGI. Any excess may be carried over for up to five future years. Contributions may also be limited if the qualified organization is not considered by the IRS to be a 60 percent limit organization. This includes contributions to veterans' organizations, fraternal societies, nonprofit cemeteries, and certain private non-operating foundations. Contributions made to these organizations are subject to a limit of 30 percent of AGI, or 20 percent of AGI if the donation is capital gain. At the website listed above, the IRS indicates whether or not contributions to certain organizations are subject to these additional limitations.

It is a good strategy to keep a running list of your charitable contributions so you can be prepared to speed up or delay any contributions to maximize your deductions. Along this same line, keeping tabs on your total income for the year, in case you will be subject to the phase-out provisions, will enable you to plan properly.

If you plan to contribute appreciated capital gain property, you will achieve the maximum benefit if the property is long-term – property held for more than 12 months.

- You can normally deduct the fair market value of the contribution rather than the cost basis. If held for 12 months or less, the deduction is limited to the basis in the property.
- Even if you want to keep the investment, consider gifting the qualifying property and using your charitable cash to purchase a replacement investment. You would be made whole, with a new 12-month long-term holding period to meet, but you have increased your investment basis in the meantime.

Do not give securities that have depreciated, as your deduction is limited to the lower fair market value. You would be better to sell the security, take your loss, and contribute the net cash to charity.

While those over age 70½ can direct IRA withdrawals up to $100,000 to charity, which can work well, arguably the gift of appreciated stock is an even better idea since you get a full deduction without reporting the appreciation as income. But with the expanded standard deduction in place, remember that you must be able to itemize for this plan to work.

Before making such a contribution, you should ascertain that the property does qualify for deduction of the fair market value and is, in fact, appreciated property.

This overview provides some of the laws and strategies for deriving the maximum tax benefit from charitable contributions. Before making significant contributions, you would be wise to consult with us to assure that you are maximizing the benefit.

Timing income and expenses can be important tax reduction strategy

The new tax rates from the TCJA are about the same in 2019 versus 2020 and 2021, with modest adjustments for inflation (this assumes that we do not get a change in the tax structure for 2021). So deferring income and accelerating deductions benefits you primarily

by delaying the time when the tax is due. But it does not significantly change the amount of tax unless your net taxable income is dramatically different in one of these years. In that case, try to focus the deductions on the higher income year(s), and to trigger the income in the lower income year(s). So defer income into next year and accelerate deductions into this year if you expect to be in a lower tax bracket through 2025 under current law. But if the reverse is your expectation, consider accelerating the income into 2020 and deferring deductions into the future.

Income that you could delay into 2021 include:

- Collecting rents
- Receiving payments for services
- Accepting a year-end bonus
- Collecting business debts

But be careful of constructive receipt rules, which say that the amount is income when you could have received it, but chose not to.

And if you itemize deductions, consider prepaying some of your 2021 tax-deductible expenses in 2020. With the increased standard deduction, it may be beneficial to bunch itemized deductions (taxes, contributions, medical expenses) into one year and then take the standard deduction the following year.

Individuals usually account for taxes using the cash method. As a cash method taxpayer, you can deduct expenses when you pay them or charge them to your credit card. Expenses paid by credit card are considered paid in the year they are incurred, so this may be a way to accelerate deductions if you do not have the cash to do so.

These lower tax rates remain through 2025 under current law. If you believe that rates will revert to the old system in 2026, consider Roth 401(k)s and Roth IRAs while rates are lower, and the benefits of the deduction are lower.

In addition to charitable contributions discussed earlier, you should decide whether it would be beneficial for you to prepay the following expenses:

- **State and local income taxes** – You may prepay any state and local income taxes normally due on January 15, 2021, if you do not expect to be subject to the AMT in 2020, or limited by the $10,000 cap on tax deductions. If either of these limitations apply, the long-standing strategy of prepaying your state taxes simply no longer works.
- **Real estate taxes** – You can prepay in 2020 any real estate tax due early in 2021. But the same limitations apply as in the prior point.

- **Mortgage interest** – Your ability to deduct prepaid interest has limits. But, to the extent your January mortgage payment reflects interest accrued as of December 31, 2020, a payment before year end will secure the interest deduction in 2020. However, note that this technique really only works once. Deducting a 13th monthly payment in 2020 leaves you only 11 payments to deduct in 2021, thus you are forced to continue to prepay the next January payment just to keep 12 months of deductions in future years.
- **Margin interest** – If you bought securities on margin, any interest accrued as of December 31, 2020, will be deductible in 2020 only if you actually pay the interest by December 31 (subject to the investment interest limitation rules).

Stay on top of your tax payments

If you expect to be subject to an underpayment penalty for failure to pay your 2020 tax liability on a timely basis, consider increasing your withholding between now and the end of the year to reduce or eliminate the penalty. Increasing your final estimated tax deposit due January 15, 2021, may reduce the amount of the penalty, but is unlikely to eliminate it entirely.

Withholding, even if done on the last day of the tax year, is deemed withheld ratably throughout the tax year. For federal taxes, underpayment penalties can be avoided when total withholdings and estimated tax payments exceed the 2019 tax liability, or in the case of higher-income taxpayers, 110 percent of 2019 tax. Ask us which rule applies to you. For NC tax, the rule is the same except you can replace “110 percent of 2019 tax” with “100 percent.”

North Carolina Taxes

For NC residents, your personal income tax rate will be 5.25% in 2020, unchanged from 2019. The basic mechanics of the computation of taxable income will be similar to 2019. Looking forward, no noteworthy changes in the tax system are on the horizon at this time.

Conclusion

The U.S. Tax Code is incredibly complex and can change rapidly, even though it may sometimes seem to be moving along at a snail’s pace. This complexity has given rise to more calls for simplification, such as in the Tax Cuts and Jobs Act of 2017. This Act made the Code simpler in some ways, but more complicated in others.

With such complexity in the tax code, a CPA is better able to keep abreast of the changes and can prepare taxes in a manner that determines a taxpayer’s minimum legal tax liability. But minimizing tax liability started last week, last month, last year. Tax planning is a constant in today’s complex world.

Serving clients throughout North Carolina and beyond

While our offices are physically located in North Carolina, we assist clients with tax reporting matters in practically every jurisdiction in the country, as well as many foreign countries. Where we do not have the first-hand contacts and experience, we rely on associate firms through our CPAmerica association, both nationwide and worldwide. We bring you the access, knowledge, and experience of much larger firms while providing you with the customized service and familiar faces you know and trust.

In closing, DMJ is committed to improving our connection with each client. We encourage you to stay in contact and learn more about our services and relevant news by following us at:

twitter.com/dmjandco

facebook.com/dmjandco

contact@dmj.com - Receive monthly email updates and relevant tax news by joining our mailing list.

Sincerely,

DMJ & Co., PLLC

Certified Public Accountants

TRIAD	TRIANGLE	SANDHILLS	COASTAL CAPE FEAR
GREENSBORO 336.275.9886	DURHAM 919.489.3393	SANFORD 919.774.4535	WILMINGTON 910.452.5260

* * * * *

This publication is intended to provide accurate and factual information on the issues covered. These general guidelines are based on information from the Internal Revenue Service and other federal and state agencies, as well as the rules followed by many businesses. These are only guidelines; therefore, judgment must be used. Voluminous and bulky business records should be destroyed as soon as they have outlived their usefulness, usually after 4 years.

The firm, its employees, and staff make no representation guarantee or warranty, express or implied, that this compilation is error-free or that the use of this directory will prevent differences of opinion or disputes, and assumes no liability whatsoever in connection with its use. The contents of this publication may be subject to change.

WHAT TO KEEP

RECORD RETENTION GUIDELINES

ACCOUNTING RECORDS

Accountant's reports	Permanently
Bank statements, deposit slips	5 years
Cash receipt books or vouchers	7 years
Checks *(payroll and general)*	7 years
Check registers	7 years
Daily logs *(journals of receipts and charges)*	7 years
Expense reports	7 years
Financial statements *(year end)*	Permanently
General ledgers and journals	Permanently
Internal audit reports	4 years
Payment vouchers	7 years
Petty cash vouchers	4 years
Uncollectible accounts	4 years

CORPORATION CAPITAL RECORDS

Capital stock, bond and proxy records	Permanently
Deeds and easements	Permanently
Dividends paid	Permanently
Expire mortgages, notes, and leases	8 years
General and labor contracts	Permanently
Minute books for Directors and/or Stockholders	Permanently
Bylaws and Charter	Permanently
Stock redemptions	Permanently

CORRESPONDENCE

General correspondence	4 years
Legal and tax matters	Permanently

EMPLOYEE RECORDS

Employee I-9 forms*	4 years
Employee personnel records *(after termination)*	4 years
Employment applications for non hires	4 years
OSHA medical records**	30 years *plus term of employment*
OSHA training records	4 years *from training date*
Policy manual (after revision)	4 years
Vacations and other absences	4 years

INSURANCE

Accident and fire inspecton reports	7 years
Claims after settlement	7 years
Expired policies	7 years
Group disability records	7 years
Malpractice insurance policies	Permanently

PAYROLL

Employee demographics	7 years
Employee earnings	7 years
Payments and reports to government	7 years
Payroll tax returns and supporting info	Permanently
Record of payments to Annuity, Pension, Accident, Health, or other fringe benefit plan	7 years
Time cards/attendance sheets	4 years

PERSONAL RECORDS

Bank statements	7 years
Birth certificates	Permanently
Canceled checks *(generally)*	7 years
Canceled checks *(for important payments; i.e, taxes, purchases of property, special contracts, etc.*	Permanently
Closing statements, purchase and sales invoices, proof of payment insurance records and Form 2119	7 years
Contracts, mortgages, notes, leases *(expired)*	7 years
Contracts, mortgages, notes, leases *(still in effect)*	Permanently
Correspondence *(legal and important matters)*	Permanently
Credit card statements	7 years
Custody agreements	Permanently
Death certificates	Permanently
Deeds, mortgages, bills of sale	Permanently
Divorce papers	Permanently
Employment taxes for household employees *(records and returns)*	Permanently
Form K-1 from partnerships, trusts, and S corporations	7 years
Home and home improvements	Permanently
Investment records: Option records *(expired)*, Stock and Bond certificates *(canceled)*	7 years
IRA contributions *(all)*	Permanently
Invesment records: *Brokerage statements, mutual fund statements and Form(s) 1099*	Permanently
Marriage certificate	Permanently
Property appraisals by outside appraisers – Retirement and pension records, including Form(s) 1099	Permanently
Tax returns, Forms W-2, and worksheets *IRA contributions (all) revenue agents report and other – Investment records: documents related to determination of Brokerage statements, mutual fund income tax liability*	7 years

PURCHASING, SALES, AND RECEIVING

Inventory records	7 years
Purchase orders and requisitions	4 years
Sales contracts and invoices	4 years

TAX RECORDS

Depreciation schedules	Permanently
Excise tax returns and supporting info	Permanently
Income tax returns and supporting info	Permanently

* *Age of majority is 18 years of age in North Carolina. The statutes run for three years past majority.*

** *OSHA medical records and I-9 forms should be kept separate from employee's personnel file.*

In order to preserve confidentiality when discarding old records, all documents should be destroyed. This guide is for original records.

COMPUTERIZED RECORDS

Records must be maintained in a retrievable format according to these time guidelines. Additionally, documentation describing the application, procedures and controls utilized, as well as the detail information for the records, must be available.

LOSS OR DESTRUCTION OF RECORDS

To safeguard your records against loss from theft, fire or other disaster, you should consider keeping your most important records in a safe deposit box or other safe place outside your home. In addition, consider keeping copies of the most important records in a single, easily accessible location so that you can grab them if you have to leave your home in an emergency.

NORTH CAROLINA ESCHEATS AND ABANDONED PROPERTY LAW

Unclaimed tangible and intangible property must be forwarded to the state. Dormancy periods could be as long as 15 years, but most are 1-5 years depending upon the nature of the property.

INSIDE PUBLIC ACCOUNTING TOP 300 FIRMS 2020

Personal attention. Verifiable results.
DMJ & Co., PLLC