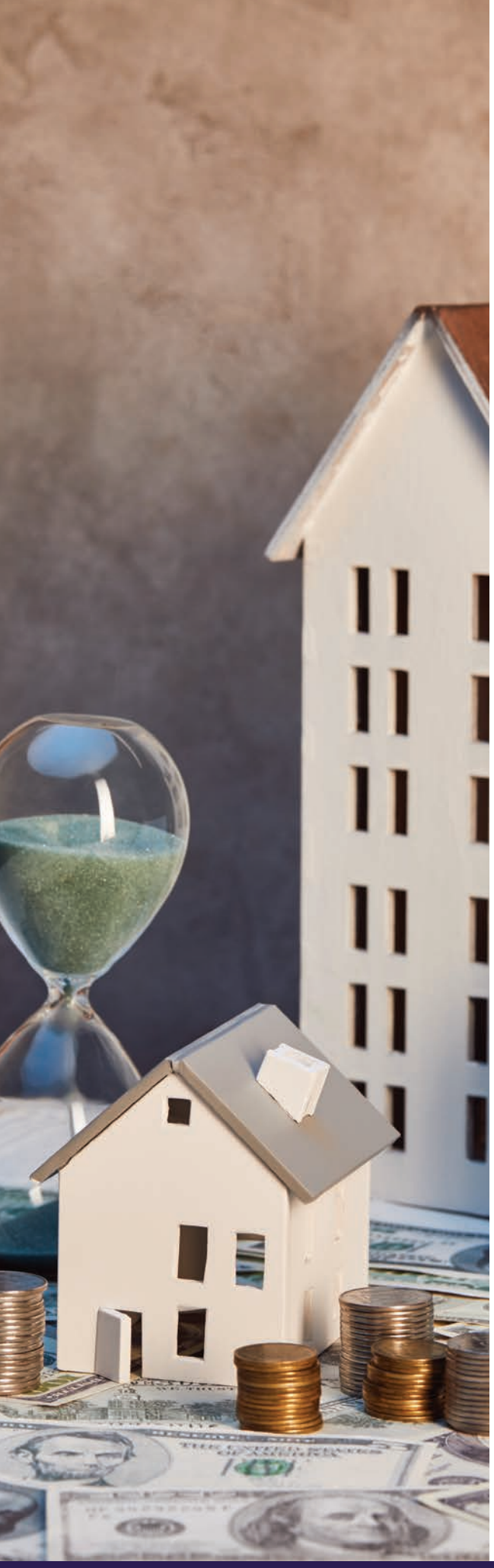
43 Life Events

That May Affect Your Taxes and Accounting



Your tax professional will ask you about what's happening in your life, whether in the form of an interview, intake form, or annual tax organizer. Please know they are not being overly nosy! They need to know when life events occur because they often make a difference in how much tax you pay.

It's usually to your benefit to be forthcoming about major milestones as well as many other activities going on in your life. Tax and accounting experts can find all sorts of tax credits, deductions, and recordkeeping requirements to apply to your situation once you've let them know about your life changes.

Here are 43 life events to consider letting your tax preparer and accounting professional in on. In some cases, the initial documents that you need to send them are listed, and they may have a follow-up list for you once they know which event has occurred. They may even want to see the photos!

How Career Changes Affect Your Taxes

1. Getting hired.

Your employer will take taxes out of each paycheck you earn. When you complete the Employee's Withholding Certificate (IRS Form W-4), you control the amount of taxes that get taken out of each paycheck. These payments go toward your annual tax due on April 15th of the following year. Your tax professional can help you adjust your withholding, so that you don't end up with a large tax bill every April or a huge refund that you could have been spending a lot earlier.

If you don't pay enough taxes throughout the year, there can be penalties. If you don't pay all of what you owe by April 15th of each year, there can be additional penalties.

If it's your first job or you earn a low wage, ask your tax pro if you qualify for the Earned Income Credit, which is available to low-income taxpayers to help them with their tax bill.

Your employer may be able to pass on tax savings through benefits you may qualify for, such as contributing to a retirement plan.

Provide your tax professional with your W-2 when you receive it in January. If your compensation is complicated, they may also want a copy of your employment agreement.

If you are a gig worker, self-employed, or a contractor with 1099 income and don't qualify as an employee, there are many ways you can reduce your taxes. Keep good records of job-related expenses, and hire an accountant to set up your books so they're accurate and timely from the very beginning. Ask your tax professional for some tax planning so that you'll know what's possible in tax savings for your situation.

2. Getting a raise.

Each time you get a raise, it's a good idea to re-visit your withholding levels so that there are no surprises. Since our tax rates are graduated, meaning you pay a higher percentage of taxes as your income goes up, you may be surprised at how much more money you might need to pay in taxes after a raise.

3. Working two or more jobs or switching jobs.

Your tax preparer will need records of all of the jobs you've worked for the tax year that they are filing for. You could get a refund of Social Security taxes which can happen if you switch jobs mid-year, both employers deduct the payroll tax, and the sum of the two paycheck deductions exceeds the cap.

When working two jobs or working a lot of overtime, you might need to adjust your withholding so that enough taxes are paid to avoid penalties.

If you switch jobs and had a retirement plan with the former employer, you will need to do a rollover of your funds into a new plan so that you don't get taxed.

4. Getting hired in the family business.

If you work for your relatives, certain tax rules about related parties and family businesses may need to be researched by your tax preparer to double-check deduction limitations.

5. Losing a job.

If you are laid off from your job, you may be eligible for unemployment income. Some people find it surprising that unemployment income is taxable, so be careful and don't let your taxes sneak up on you at a time when you might already be vulnerable from a cash standpoint. Give your tax pro a copy of your 1099-G when you receive it in January.

If you had a retirement plan with the former employer, be sure to roll over your funds into a new plan so that you don't get taxed.

How Relationship Changes Affect Taxes

6. Getting married.

Getting married impacts your filing status. You will transition from Single to either Married Filing Joint or Married Filing Separately, and this status will apply for the entire tax year no matter what month you got married. Even if you file Married Filing Separately, your spouse's income will affect you, especially in states that acknowledge community property laws.

You and your spouse will need to work together to determine your new combined income level and your new tax rate. You may need to adjust your withholding rates to account for your new situation.

You may have heard about the marriage penalty, where you actually pay more in taxes if you are married. IRS has greatly reduced the penalty in recent years and it only exists in one tax bracket as of this writing. You may even get a marriage bonus where you pay fewer taxes; this can occur when one spouse makes significantly less than the other.

If you change your last name, be sure to update your records with the IRS, your state income tax agency, and the Social Security office. And if you move, you'll want to fill out a change of address for each tax agency as well.

While not directly a tax issue, you may want to look into your new spouse's eligibility for company benefits, such as health insurance, if they are not covered.

You may be wondering about registered domestic partnerships and taxes. The IRS has very specific rules for handling individuals who are in a registered domestic partnership, so be sure to let your tax professional know if this is your situation.

7. Getting divorced.

Getting divorced impacts your taxes, as your filing status changes to either Single or Head of Household. You may want to adjust your withholding to reflect your new income levels.

Your tax professional will likely want to receive a copy of your divorce decree so they can evaluate your situation for things like alimony and existing tax debt. If you have children, you may have tax-related issues around the number of dependents and child support.

If you change your last name, be sure to update your records with the IRS, your state income tax agency, and the Social Security office. And if you move, you'll want to fill out a change of address for each tax agency as well.

8. Having a baby.

Adding a newborn to your household increases the amount of dependents you can claim on your taxes.

With the current tax laws, there are many, many child-related credits and deductions. The Child Tax Credit is designed to help defray the added costs of raising a child. The Child and Dependent Care Tax Credit is provided to help you with child care expenses. And the Earned Income Tax Credit amount increases per child to help low-income families.

9. Adopting or fostering a child.

Adopting a child provides the same benefits as above, plus one more: the Adoption Credit. Certain qualified adoption expenses may be able to be deducted or applied as a tax credit when an eligible child has been adopted. There are many other rules and exceptions, so this is definitely an area in which to consult your tax professional.

Keep good records of any expenses related to adoption, and your tax professional can go through them with you to determine eligibility for what can be deducted.

There are also credits for fostering a child, so be sure to look into those if this is your situation.

10. Sending your kids to college.

Sending your kids to college is expensive, and tax relief is always welcome. It includes tuition deductions, tax credits, and tax-free savings.

Ask your tax professional about these tax savings:

- IRS 529 education savings plans (also called Qualified Tuition Programs). You can start early on these tax-advantaged plans by contributing to the plan throughout your child's life. Money that you take out of the plan to pay for qualified college expenses is tax-free.
- Education savings bond program
- Education credits, including the American Opportunity and the Lifetime Learning Credits
- Education deductions, including the Tuition and Fees Deduction
- Interest expense on student loans

Optimizing tax savings with education tax relief for both you and your child can be a bit of a game. Your tax professional can do the best job if they have the full picture for both you and your child-student so that you can both get the largest refund.

11. Hiring your kids.

Putting your kids on payroll can be quite beneficial to your taxes, but it needs to be done correctly to avoid issues like child labor law violations and payroll tax penalties.

There is a bit of paperwork involved, as you'll need to get set up as an employer, but if you're in some of the higher tax brackets, it can be well worth it.

12. Caring for an elderly parent.

If you have been caring for an elderly parent, and they have very little income besides their Social Security check, you may be able to claim them as a dependent on your tax return.

Your tax professional will need all of the income records on your parent: W-2s, 1099s, and other documents.

13. Death of a family member.

There are many loose ends to wrap up when a taxpayer dies. The Social Security office will need to be notified, and if there is a spouse, any benefits accruing to them will begin. The same will be true for any retirement plans, pensions, or other employer benefits.

A final 1040 return needs to be filed for the year the taxpayer became deceased. If a refund is due, it can be claimed on IRS Form 1310.

Many entities, including the IRS, will need to receive a copy of the death certificate, and this will help prevent identity theft in the future. Surviving family members should review their beneficiary claims and adjust accordingly.

Any assets that the taxpayer owns becomes the property of their estate. Income on these assets may trigger a requirement to file an estate tax return. Once the assets are distributed to the heirs, an estate tax may be due.

14. Inheriting family assets.

If you are the beneficiary of some or all of your family's assets, you generally do not have to pay taxes on what you receive. Each asset you receive is set to market value for tax purposes at the time of the death. This is called "basis" and it's equivalent to what you would have paid for it had you acquired it through purchase.

As time goes on, anything you earn over and above your basis is what you would pay taxes on.

There are a couple of "gotchas," such as retirement funds, where you can avoid taxes by rolling them over into your retirement accounts. Also, a few states have an inheritance tax, so you will need to watch out for that.

Provide your tax professional with a copy of the will, estate letters and documents you received, titles, deeds, and transfers of ownership as well as any valuation work that has been done.

How Your Home Affects Your Taxes

15. Purchasing a house.

Buying a home is a great investment as well as an opportunity for tax savings.

While fewer and fewer people are itemizing these days since the standard deduction and exemptions were combined, first-time homeowners will often be able to itemize and take a larger deduction than the standard deduction because of property taxes and mortgage interest. But that's not all: itemizing gives you the chance to also deduct medical expenses, charitable contributions, and any state, local, and sales taxes you paid.

To get the tax paperwork started, provide your tax professional with:

- Your real estate closing or settlement statement that you received at the time of purchase,
- Your mortgage statements, and
- Your property tax bills.

16. Making home improvements.

Certain improvements you make to your home, such as adding a fence or a new room, may help you with taxes when you sell your home. Keep the receipts and maintain a spreadsheet of your home improvement expenses.

When you sell your home, you can add these expenses to your cost basis of the house so that any gain on the sale is reduced.

17. Selling your home.

If the house you are selling is a primary residence and you have a gain when you sell it, you should be able to exclude at least part of the gain from your taxes. If you are single, the exclusion amount for primary residences is $250,000, and if you are married and file a joint return, you can exclude up to $500,000.

To calculate your gain, you'll need the settlement statement you received when you purchased your home as well as the settlement statement you received when you sold your home. Give your tax professional any home improvement records you have to reduce your gain further.

18. Working from home.

If you are self-employed and work from home or use your home in your business, you may qualify for the home office deduction.

19. Moving to a new home.

In general, moving expenses are no longer deductible for tax purposes for tax years 2018-2025. There are exceptions for military personnel, however.

20. Owning a second home.

There can be tax breaks on expenses related to a second home, but there are limits as well as conditions that you must qualify for. These include things like how much your mortgage is and whether you earn rental income on the second home.

Provide your tax professional with the settlement or closing statement of the property when you purchase it. Keep a log of when you use your second home for residency qualification purposes.

How Investing Affects Your Taxes

21. Investing in stocks, bonds, property, or other investments.

When you purchase stocks, bonds, or property for investment purposes, keep records of the cost of your items. This will become your basis in the item when you sell.

If your investment earns income, such as interest or dividends, these amounts are taxable. Your brokerage statement will include the amounts you need to report on your tax return.

22. Selling your investments.

When you sell your investments, gains and losses on those sales could affect your taxes. Generally speaking, gains and losses on investments are taxed as capital gains and losses, but there are many exceptions where they might be taxed as ordinary income.

The capital gains rate is usually lower than the ordinary income rate. As of this writing (October 2021), the capital gains rate ranges from 0 to 20 percent, depending on your income level. Ordinary income tax brackets range from 10 to 37 percent.

You will first need to know when you originally purchased the investment and what the cost was. Then you can determine the classification of the sale as short-term or long-term.

If the difference in the investment purchase and sale date was one year or less, the sale is classified as a short-term sale. If you held the asset for longer than one year, it's a long-term gain.

Short-term losses and short-term gains can be netted for tax purposes. The same is true for long-term gains and losses.

Watch out for things like wash sales, where you sell a stock and then buy it again within 30 days. Some people do this to try to claim a loss on their tax return, but the IRS disallows it.

Investing will add a few tax schedules onto your return. Schedule B is where you will report interest and dividends. Report capital gains, including stock and bond sales, on Schedule D, and if you have real estate investments, use Schedule E.

Provide your tax professional with your brokerage statements as well as your basis records so they can record the sale correctly.

23. Investing in international assets.

If you have income from outside the US, it's still taxable. You will report it the same way you do your US income.

If you also pay taxes in a foreign country, you may be able to reduce your taxes via the Foreign Tax Credit.

If you have a bank account or are a signatory on a bank account in any country besides the US, you are required to disclose that on Schedule B as well as file additional reports with the government. You must also disclose if you were part of a foreign trust.

24. Investing in cryptocurrency.

Beginning in the tax year 2020, the IRS added a new disclosure question about cryptocurrency:

> *"At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?" Yes No*

The IRS is planning and plotting how best to track and audit the growing number of cryptocurrency transactions. In addition to simple disclosure, buying and selling cryptocurrency is taxable just like stocks and bonds.

If you purchase anything with cryptocurrency, the IRS considers it a sale of the currency and will tax the gain or loss.

This new area is fairly unregulated, but as it becomes more popular, expect to see additional reporting and regulatory requirements around these types of investments.

How Being a Business Owner Affects Your Taxes

25. Starting a business.

When you start a business, you will need to pay taxes on the income, and possibly salary, you receive from the business. The forms you need to fill out and how the income is calculated will vary based on the type of entity you choose for your business.

If you remain a sole proprietor, you will record your business transactions on Schedule C, which is part of your 1040 form. Corporations will file a Form 1120, and as an individual, you will still be responsible for filing your 1040. Partnerships require a separate return as well, Form 1065. You will likely also have additional state business tax filing and payment requirements.

If your business is a corporation and you earn a salary, you will need to report your W-2 income.

There are many business deductions you can take, and while most of them reduce revenues to come up with net profit, other business deductions can be passed through to your personal tax return, the 1040.

26. Buying a business.

A buyer does not necessarily have to pay taxes when they purchase a business. However, there are exceptions and tax implications. For example, if inventory is part of the purchase, you may be liable for sales tax.

There are many ways to structure a business deal, and there are tax implications in doing so. It's a good idea to get advice from your tax professional on how to structure the deal to minimize taxes. Often, the buyer and seller are at odds when it comes to tax implications, and this becomes part of the negotiations.

Once the deal is complete, give your tax professional a copy of the broker statement so that you can accurately record your general ledger account balances. An accountant can help you determine depreciation and amortization schedules for book and tax purposes as well as a number of other accounting tasks and requirements that will need to be done.

27. Hiring workers.

Becoming an employer exposes you to many more tax and filing requirements. You must obtain an EIN, or Employer Identification Number, from the IRS so that you can collect and pay federal and state payroll taxes. These include withholding, Social Security, and Medicare taxes, and with the latter two, there is an employer match that must be paid along with the employees' salaries.

In some states, workers compensation is considered a tax, but in most, it's considered insurance. In any case, you will need it to cover your workers.

How large your payroll is will dictate how often you need to make payroll deposits. In all cases, you will need to file quarterly payroll tax returns on IRS Form 941. If your state has an income tax, you will also need to file payroll tax forms and make deposits to your state agency. Your payroll company might do this for you, but you are responsible for filing and paying, so be sure to check their work.

In January, you will be responsible for filing IRS Form 940 for unemployment as well as providing each employee with an accurate W-2.

When hiring new employees, there is additional paperwork you should receive from the employee: a W-4, Employee's Withholding Certificate, and an I-9, Employment Eligibility Verification. If you hire contractors, you will need a W-9, Request for Taxpayer Identification Number, from each of them and to issue a 1099-NEC, Nonemployee Compensation, in January of each year.

28. Selling your business.

There are many tax-related factors to consider when selling your business. You might think about your business as one lump sale, but the IRS looks at the individual assets that make up the sale to decide how to tax them.

The biggest issue is whether the sale is taxed as ordinary income, where the tax rate is much higher, or capital gains, where the tax rate is lower. It also matters if you receive cash up front or in installment payments that include interest.

Give your tax professional the broker statement from the sale once it's complete, or better yet, hire them to look over the proposal before it's a done deal.

How Your Health Affects Your Taxes

29. Incurring medical expenses.

You can deduct qualified medical expenses to save money on taxes, but you must be able to itemize in order to do that. To get any benefit out of all of this extra paperwork, the total of your medical expenses along with any other expenses that you can itemize such as mortgage interest payments, state taxes, and charitable contributions must exceed the standard deduction that you get by default.

There is a very long list of exactly which medical expenses are deductible. In general, you can deduct expenses that weren't covered by insurance or otherwise reimbursed. You can include medical expenses for yourself, a spouse, and your dependents. Deductible expenses can include treatments for injury or illness, insurance premiums, and even education about your disease.

If you feel you might be able to itemize and have a large amount of medical expenses, it's a good idea to review the list of eligible deductions in Publication 502 from the IRS, so that you can stay on top of the records you need to keep.

30. Contributing to a medical savings account.

If you can't itemize but would still like to benefit from deducting medical expenses, one way to do it is through one of the programs designed to offset health care costs. These include:

- Health Savings Accounts (HSAs).
- Medical Savings Accounts (Archer MSAs and Medicare Advantage MSAs).
- Health Flexible Spending Arrangements (FSAs).
- Health Reimbursement Arrangements (HRAs).

In essence, you or an employer can deposit money in one of these health accounts, which is tax-deductible. Simply speaking, when you incur a health expense, you can charge it to your health account. Each one of these options has different rules that are beyond the scope of this document. Check with your tax planning professional to see which options you are eligible for and how best to reduce your taxes.

31. Being blind.

If you or your spouse is blind, your standard deduction will increase.

How Retirement (Including Planning for It) Affects Your Taxes

32. Contributing toward retirement.

One of the best ways to increase your wealth is to save for your future. When you can do this in a tax-advantaged way, it's a no-brainer.

The IRS provides many options for you to save money for retirement:

- 401(k) plans with your employer.
- Roth IRAs.
- SIMPLE IRA plans.
- SEP plans.
- Traditional IRAs.

IRA stands for Individual Retirement Account, and the goal is for the taxpayer to be able to save money tax-free. Each plan has its own limits and rules; some are designed for the self-employed, while others are designed for employees and provided through employers.

33. Dipping into your retirement plan ahead of time.

Life happens, and there may be a time when you need the money that you've put away for retirement now. While there are penalties for taking money out of your retirement plan too early, there are also times when the penalty is waived, such as in the case of financial hardship, illness, disasters, during the pandemic, and other situations.

34. Reaching 65.

Your standard deduction will go up in the tax year after you or your spouse reaches 65.

You may also be required to start pension payments or other retirement plan distributions if you haven't already. Your situation will depend on your specific plan's rules.

35. Reaching your 70s.

If you reach your early 70s and have not started receiving Social Security payments, it is now required. There may be other defined contribution plans in which you participate that will require you to take required minimum distributions or incur a penalty.

36. Retiring.

These days, retiring can happen at any age as well as gradually. You may quit your full-time job, only to take part-time jobs to supplement your retirement income.

When to start your Social Security payments is a very big decision, with huge cash flow considerations as well as tax consequences. This decision needs to be carefully made.

Once you've started your Social Security payments, they may or may not be taxable depending on your other income.

Each time you make a move toward retirement, you will want to re-evaluate your income situation. If you have a lot of different income sources, it's a good idea to sit down with a tax professional with expertise in retirement topics so that you can minimize your taxes, maintain the income level you want, and satisfy the required minimum distribution rules.

The sooner you start retirement planning, and preferably with both tax and investment advice, the more options you will have available to you.

How Other Life Events Affect Your Taxes

37. Going green.

Congress has granted energy credits for certain new construction as well as qualifying home improvements that are energy efficient, such as solar panels. If you are doing any kind of home improvement, remodeling, or building from scratch, be sure to check out these credits to see if you are eligible to take them.

Certain electric vehicle purchases qualify for a tax credit. IRS calls this the credit for Qualified Plug-in Electric Drive Motor Vehicles, and the amount of the credit varies by manufacturer and model. It phases out after the vendor sells a certain number of cars. Already, General Motors and Tesla have exceeded those numbers, but several other manufacturers are listed as still eligible as of late 2021.

38. Giving back.

If you donate money to a qualified charity, you may be able to get a tax break. In the tax year 2021, you can deduct up to $300 (and $600 if you are married), even if you don't itemize.

If you give more than $300/$600 and you itemize, you can include your charitable contributions on Schedule A of the IRS Form 1040.

The IRS has many rules around donations to avoid fraud in this area. You might be able to get a deduction for non-cash donations, expenses you incur while volunteering your time, and vehicle donations. There are limits to how much you can donate.

39. Giving gifts.

A great way to pass money on to the next generation tax-free is to give a gift valued no more than the IRS exclusion limit, which for tax year 2021 is $15,000. Neither the recipient nor the giver pays taxes on the gifts as long as they are under the exclusion amount. A couple can gift up to $30,000 in 2021.

40. Surviving an IRS audit.

We hope you don't have to go through this life event, but if you do, we're here for you. We definitely recommend you get a tax professional to represent you in any correspondence with the IRS, but especially an audit.

41. Experiencing a federally-declared disaster.

Most disaster victims will receive an extension to file and pay their taxes if the disaster occurred near a major tax filing due date. When you file the return after the normal due date, there are notations, including the name of the disaster and the FEMA number, that need to be written on the return.

If you experience financial loss from the disaster which is not reimbursed by insurance, you may be able to claim casualty losses.

42. Financial hardship.

Sometimes, life can take a turn for the worse, and taxpayers can get behind on their debts, including their taxes. When that happens, the worst thing to do is stay frozen.

Find a tax resolution professional who can help you get back into compliance with filing and paying your current taxes. Then you can approach the IRS with a plan to pay back what you owe and/or get relief if you can't pay.

The longer you wait, the bigger the problem snowballs. If you wait too long, the IRS will begin to seize your assets with liens and levies. They can even suspend your passport or not let you back into the country until you pay your tax bill.

43. Filing for bankruptcy.

Deciding to file for bankruptcy is a life-changing decision. If you go this route, note that the IRS will not pursue your tax debt until the bankruptcy is discharged.

However, and this is a big however, your tax debt is NOT wiped out at bankruptcy. You still must pay your tax debt even after you file bankruptcy.

Life Events and Your Taxes

As you can surmise, a LOT of things you do can affect your taxes. It's a great idea to help your tax professional become aware of what's going on in your life that may affect your taxes.

Having good communication between you and your tax professional is essential to helping you save on your taxes. You might cringe at the monster tax organizer that some tax professionals send out each year, but the more comprehensive your answers are, the better chance you have of receiving an accurate and complete tax return as well as some great ideas for tax planning so you can save even more next year.

As always, feel free to reach out any time with your tax and accounting questions and issues.

Give us a call, email us, or schedule
a time on our calendar so we can talk.