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## January 2022 Due Dates

### January 18 - Individual Estimated Tax Payment Due -

### January 31 - 1099-NECs Due to Service Providers & the IRS -

If you are a business or rental property owner and paid \$600 or more to individuals (other than employees) as nonemployee compensation during 2021, you are required to provide Form 1099-NEC to those workers by January 31. "Nonemployee compensation" can mean payments for services performed for your business or rental by an individual who is not your employee, commissions, professional fees and materials, prizes and awards for services provided, fish purchases for cash, and payments for an oil and gas working interest. To avoid a penalty, copies of the 1099-NECs also need to be sent to the IRS by January 31, 2022.

### January 31 - Form 1098 and Other 1099s Due to Recipients -

Form 1098 (Mortgage Interest Statement) and Forms 1099, including 1099-NEC (see above) are due to recipients by January 31. These 1099s may be reporting the following types of income:

- Dividends and other corporate distributions
- Interest
- Rent
- Royalties
- Payments of Indian gaming profits to tribal members
- Profit-sharing distributions
- Retirement plan distributions
- Original issue discount
- Prizes and awards
- Medical and health care payments
- Debt cancellation (treated as payment to debtor)

### January 31 - Employers - W-2s Due to All Employees & the Government -

### January 31 - File Form 941 and Deposit Any Undeposited Tax -

File Form 941 for the fourth quarter of 2021. Deposit any undeposited Social Security, Medicare, and withheld income tax. (If your tax liability is less than \$2,500, you can pay it in full with a timely filed return.)

### January 31 - File Form 940 - Federal Unemployment Tax -

File Form 940 (or 940-EZ) for 2021. If your undeposited tax is \$500 or less, you can either pay it with your return or deposit it. If it is more than \$500, you must deposit it.

# Does Your Business Need to File Forms 1099-NEC or 1099-MISC?

If you use independent contractors to perform services for your business, for each one that you pay \$600 or more for the year, you are required to issue the worker and the IRS a Form 1099-NEC no later than January 31, 2022, for 2021 payments. Generally, a 1099-NEC is not required to be issued if the independent contractor or service provider is a corporation. However, payments to attorneys for legal fees of \$600 or more must be reported, even if the attorney operates as a corporation.

To properly complete the form, you'll need the individual's name and tax identification number. But it isn't unusual to, say, hire a repairman early in the year to whom you pay less than \$600, and then use the repairman's services again later and have the total for the year exceed the \$600 limit. If you overlooked getting the information, such as the individual's complete name and tax identification number (TIN), needed to file the 1099-NEC for the year, you may have difficulty getting the information after-the-fact. Therefore, it is good practice to have contractors complete and sign the IRS Form W-9 the first time you use their services. Having properly completed and signed Form W-9s for all independent contractors and service providers eliminates any oversights and protects you against IRS penalties and conflicts.

IRS Form W-9 is provided by the government as a way for you to obtain the data required to file the 1099s for your contract workers and service providers. This data includes the person's name, address, type of business entity and TIN (usually a Social Security number or an Employer Identification Number), plus certifications as to the ID number and citizenship status, among others. It also provides you with verification that you complied with the law should the independent contractor provide you with incorrect information. We highly recommend that you have a potential independent contractor complete the Form W-9 prior to engaging in business with them. The form can either be printed out or filled online on the IRS' website and then printed out. A Spanish-language version is also available. The W-9 is for your use only and is not submitted to the IRS. The W-9 was last revised by the IRS in October 2018, so if you have older blank W-9s that you give to your service providers, you may want to print copies of the latest version (including the instructions) and discard the older unused forms.

To avoid a penalty, the government's copies of the 1099-NECs must be sent to the IRS by January 31, 2022, along with transmittal Form 1096. They must be submitted on magnetic media or on optically scannable forms. However, a business that files more than 250 information returns (such as 1099s, W-2s, and 1095s) in a calendar year is required to file them electronically. The 250-return requirement may be lowered to 100 if proposed regulations are finalized by the IRS, but the change wouldn't be effective until 2023.

In some cases, for payments of \$600 or more, you may need to file Form 1099-MISC, which is used to report rents, certain prizes and awards, and income your business paid other than that includible on Form 1099-NEC or payable to employees. The 2021 Form 1099-MISC must be provided to the income recipient by January 31, 2022, and to the IRS by February 28 (March 31 if filed electronically) accompanied by transmittal Form 1096.

This firm provides 1099 preparation services. If you need assistance or have questions, please give this office a call.

## What Is Tax Basis and Why Is It So Important?

For tax purposes, the term "basis" refers to the monetary value used to measure a gain or loss. For instance, if you purchase shares of a stock for \$1,000, your basis in that stock is \$1,000; if you then sell those shares for \$3,000, the gain is calculated based on the difference between the sales price and the basis:  $\$3,000 - \$1,000 = \$2,000$ . This is a simplified example, of course—under actual circumstances, purchase and sale costs are added to the basis of the stock—but it gives an introduction to the concept of tax basis.

The basis of an asset is very important because it is used to calculate deductions for

depreciation, casualties and depletion, as well as gains or losses on the disposition of that asset.

The basis is not always equal to the original purchase cost. It is determined in different ways for purchases, gifts and inheritances. In addition, the basis is not a fixed value, as it can increase as a result of improvements or decrease as a result of credits claimed, business depreciation or casualty losses. This article explores how the basis is determined in various circumstances.

**Cost Basis** – The cost basis (or unadjusted basis) is the amount originally paid for an item before any improvements and before any credits, business depreciation, expensing or adjustments as a result of a casualty loss.

**Adjusted Basis** – The adjusted basis starts with the original cost basis (or gift or inherited basis), then incorporates the following adjustments:

- increases for any improvements (not including repairs),
  - reductions for tax credits claimed based on the original cost or the cost of improvements,
  - reductions for any business depreciation allowed a allowable or expensing deductions, and reductions for any claimed personal or business casualty-loss deductions.
- *Example:* You purchased a home for \$250,000, which is the cost basis. You added a room for \$50,000 and a solar electric system for \$25,000, then replaced the old windows with energy-efficient double-paned windows at a cost of \$36,000. You claimed tax credits of \$7,500 and \$200, respectively, for the solar system and windows. The adjusted basis is thus  $\$250,000 + \$50,000 + \$25,000 - \$7,500 + \$36,000 - \$200 = \$353,300$ . Your payments for repairs and repainting, however, are maintenance expenses; they are not tax deductible and do not add to the basis.
  - *Example:* As the owner of a welding company, you purchased a portable trailer-mounted welder and generator for \$6,000. After owning it for 3 years, you then decide to sell it and buy a larger one. During this period, you used it in your business and deducted \$3,376 in related depreciation on your tax returns. Thus, the adjusted basis of the welder is  $\$6,000 - \$3,376 = \$2,624$ .

Keeping records regarding improvements is extremely important, but this task is sometimes overlooked, especially for home improvements. Generally, you need to keep the records of all improvements for 3 years after you have filed the return on which you report the disposition of the asset (and perhaps longer, depending on your state's rules). This might mean keeping records for many years - even decades.

**Gift Basis** – If you receive a gift, you assume the donor's (giver's) adjusted basis for that asset; in effect, the donor transfers any taxable gain from the sale of the asset to you.

- *Example:* Your mother gives you stock shares that have a market value of \$15,000 at the time of the gift. However, your mother originally purchased the shares for \$5,000. You assume your mother's basis of \$5,000; if you then immediately sell the shares, your taxable gain is  $\$15,000 - \$5,000 = \$10,000$ .

There is one significant catch: If the fair market value (FMV) of the gift is less than the donor's adjusted basis and you then sell it for a loss, your basis for determining the loss is the gift's FMV on the date of the gift.

- *Example:* Again, say that your mother purchased stock shares for \$5,000. However, this time, the shares were worth \$4,000 when she gave them to you, and you subsequently sold them for \$3,000. In this case, your tax-deductible loss is only \$1,000 (the sales price of \$3,000 minus the \$4,000 FMV on the date of the gift), not \$2,000 (\$3,000 minus your mother's \$5,000 basis).

**Inherited Basis** – Generally, a beneficiary who inherits an asset uses the asset's FMV on the date of the owner's death as the tax basis. This is because the tax on the decedent's estate is based on the FMV of the decedent's assets at the time of death. Normally, inherited assets

receive a step up (increase) in basis. However, if an asset's FMV is less than the decedent's basis, then the beneficiary's basis is stepped down (reduced). (*Congress has been considering a change that would make the inherited basis the amount of the decedent's adjusted basis, thus eliminating the beneficial step-up in basis rule. Please check with this office for the current status of the legislation.*)

**Example:** You inherited your uncle's home after he died in 2020. Your uncle's adjusted basis in the home, which he purchased in 1995, was \$50,000, and its FMV was \$400,000 when he died. Your basis in the home is equal to its FMV: \$400,000.

**Example:** You inherit your uncle's car after he died in 2020. Your uncle's adjusted basis in the car, which he purchased in 2015, was \$50,000, and its FMV was \$20,000 at his date of death. Your basis in the car is equal to its FMV: \$20,000.

An inherited asset's FMV is very important because it is used to determine the gain or loss after the sale of that asset. If an estate's executor is unable to provide FMV information, the beneficiary should obtain the necessary appraisals. Generally, if you sell an inherited item in an arm's-length transaction within a short time, the sales price can be used as the FMV. A simple example of a transaction not at arm's length is the sale of a home from parents to children. The parents might wish to sell the property to their children at a price below market value, but such a transaction might later be classified by a court as a gift rather than a bona fide sale, which could have tax and other legal consequences.

For vehicles, online valuation tools such as the Kelly Blue Book can be used to determine FMV. The value of publicly traded stocks can similarly be determined using website tools. On the other hand, for real estate and businesses, valuations generally require the use of certified appraisal services.

The foregoing is only a general overview of how basis applies to taxes. If you have any questions, please call this office for help.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

Scott Jensen  
Kramer & Jensen, LLC

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