TAX TALK

Private Client Group Newsletter

QUARTERLY UPDATE | WINTER 2021 EDITION

presented by:

crr CPA

Introducing Tax Talk!

Welcome to the premier edition of Tax Talk from the Private Client Group! I get a lot of questions from new law firm partners, so I thought I would begin by sharing some of the tax issues that relate to all law firm partners.

As part of our practice, I spend a lot of time working with law firm partners. Prior to becoming a full-equity partner, paying your taxes, and filing returns may not be that challenging. Until becoming a full-equity partner in your firm, paying estimated taxes is straightforward. But when you become a full-equity partner, life changes in more ways than one. For starters, taxes must be paid based on the taxable earnings of the firm by quarter. These earnings are usually uneven throughout the year - it would be rare to see equal income each quarter. Most of the law firms I work with see lower profits in the first two quarters of the year and notably higher profits in the third and fourth quarters. That results in an uneven flow of taxable income to the partner throughout the year.

Fortunately, most law firms generally provide their partners with data per quarter, which allows for the calculation of the varying estimated payments.

If you are a full-equity partner and you are paying equal estimated payments throughout the year without regard to your firm's actual earnings, you may be overpaying the IRS early in the year – and putting a strain on your own cash flow in the process. Resolve this by annualizing your estimated tax payments. Your cash distributions likely mirror your portion of firm earnings, so making a larger payment than necessary in any quarter can be painful – but also avoidable.

The best practice, therefore, is to synch your estimated payments to your actual quarterly earnings. This requires estimating and including all other income throughout the year, as well as that of a working spouse.

Another area where I often see mistakes concerns allowable deductions. Like failing to deduct the interest paid on a capital account loan, which is money borrowed to make a capital contribution. Unlike itemized deductions, which are detailed on Schedule A of your tax return, this interest is deducted on Schedule E to directly offset your partnership income. Business expenses which your firm will not reimburse you for are also deducted on Schedule E.

Another significant deduction is health insurance premiums paid by the partner, including dental and an allowable portion of long-term care (depending on your age). This is the "Self- Employed (S/E) Health" deduction. Health Insurance is deducted 100% on Form 1040, and not as an itemized medical deduction.

The biggest surprise, however, is when new law firm partners realize the need to pay taxes in every state that the firm does business in. One option available here is an available election into "composite" state tax returns offered by most firms, which can eliminate the need for many state filings.

But (there's always a but), electing into a composite return doesn't make sense in every case, especially if your firm does business in high tax states like New York or California. In many instances partners will do much better electing of these state composite filings, instead opting to individual returns in these states.

The bottom line - it pays to not wait until the end of the year to think about taxes. The key is to talk to us throughout the year to make sure you are paying taxes in the most efficient manner possible - and only as much as you need to.

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Exciting News!

This year we are excited to announce a software solution that simplifies tax time and reduces your tax season stress. The solution is called TaxCaddy. It makes it easier than ever to gather your 1040 tax documents and deliver them to us, communicate with us, answer your questionnaire electronically, and sign documents like the e-file authorization. We're excited about this powerful, free solution and we think you will be, too.

Here's what you can expect:

- TaxCaddy is provided at no cost to you.
- Your TaxCaddy account will reflect your tax return progress with us. You will only need to provide the documents and tax information that are pending.
- You will have access to direct contact with your tax professional through TaxCaddy's messaging features.
- You can submit documents by taking pictures with the TaxCaddy mobile app, uploading files, or manually entering information.
- For greater convenience, you will also have the option of authorizing TaxCaddy to retrieve documents automatically from your financial institutions which will give us access to them immediately. (See instructions on Smart Links.)
- Technical support and troubleshooting are available by email and chat in the TaxCaddy Help Center.

Soon you'll receive an email inviting you to create your TaxCaddy account. The email will contain instructions with three easy steps to get started. If you'd like to learn more while you wait for your invitation email, see our overview attachment.

So be on the lookout for the TaxCaddy invitation email. In the meantime, please don't hesitate to reach out to us if you have questions.

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Brian's more than 20 years of combined experience working in public accounting, with real-world experience in the private sector, enable him to understand all facets of a client's business.

Closely-held companies and their owners, along with high-net-worth individuals and families, have relied on Brian for practical and results-oriented tax planning and reporting.