



The relationship established between an independent accounting firm and its client must always be based on mutual respect and trust. We believe in listening to our clients and tailoring our services to meet their needs. We have set high client service standards for all that we do.

ARE SCHOLARSHIPS TAXABLE?

Many young adults are heading off or back to college in the fall. It's particularly exciting this year because of high hopes that, thanks to mass vaccinations, students will be able to have something approaching a traditional college experience. If your child has been awarded a scholarship, that's cause for celebration, too! But be aware that there may be tax implications.

GENERALLY, BUT NOT ALWAYS

Scholarships (and fellowships) are generally tax-free for students at elementary, middle and high schools, as well as those attending college, graduate school or accredited vocational schools. It doesn't matter if the scholarship makes a direct payment to the individual or reduces tuition.

Subject to limited exceptions, however, a scholarship *isn't* tax-free if the payments are linked to services that your child performs as a condition for receiving the award — even if the services are required of all degree candidates. Therefore, a stipend your child receives for required teaching, research or other services is taxable, even if the child uses the money for tuition or related expenses.

RETURNS AND RECORDKEEPING

If a scholarship is tax-free and your child has no other income, the award doesn't have to be reported on a tax return. However, any portion of an award that's taxable as payment for services is treated as wages. Estimated tax payments may have to be made if the payor doesn't withhold enough tax.

Your child should receive a Form W-2, "Wage and Tax Statement," showing the amount of these "wages" and the amount of tax withheld. Any portion of the award that's taxable must be reported, even if no Form W-2 is received.

BASIC RULES

These are just a few of the basic rules. Other rules and limitations may apply. For example, if your child's scholarship is taxable, it may limit other higher education tax benefits to which you or your child are entitled. As we approach the new school year, best wishes for your child's success. Please contact us if you wish to discuss this or any other tax matter. ■■



SHOULD AN LLC HOLD YOUR VACATION HOME?



If you share a vacation home with family members, holding it in a limited liability company (LLC) is one option that offers several important benefits. Here are a few:

Asset protection. By establishing an LLC to own the home and transferring interests to family members, you can protect the home against claims by a family member's personal creditors. You can also shelter your family's other assets against claims by the LLC's creditors (such as a lawsuit by someone injured on the property). Note that the level of protection available depends on all of the facts and circumstances, including the type of claim and applicable state law.

Ease of management. A carefully prepared LLC operating agreement can help avoid intrafamily disputes by detailing family members' rights and responsibilities. For example, it might state who's permitted to use the home and when, as well as how costs (and, if applicable, rental income) are allocated among family members and other permitted users. An agreement can also specify who's responsible for cleaning, maintenance and repairs, and who has decision-making authority over the home. And it can establish rules for inviting guests and specify acceptable and unacceptable activities on the

property. A particularly thorough agreement could even detail how management responsibility will be transferred to the younger generation.

Ownership restrictions. To ensure that the home stays in the family, you can build transfer restrictions into the operating agreement or include them in a separate buy-sell agreement. For example, you might place restrictions on ownership by nonfamily members or prevent ownership by members' ex-spouses. Another common approach is to require or permit the LLC or other members to purchase the interest of a member who is getting divorced, filing for bankruptcy, or otherwise attempting to transfer his or her interest outside the family. The agreement might provide for a professional appraisal of the interest to determine the price or give the other members a right of first refusal.

Estate planning advantages. Owning a vacation home through an LLC generally avoids the need for probate proceedings when an owner dies. In addition, restrictions on LLC interests typically qualify them for minority interest and lack of marketability valuation discounts, which can substantially reduce any applicable estate and gift taxes.

An LLC isn't the only way to own and share a vacation home, but its combination of limited liability, asset protection and management flexibility makes it an entity of choice for many people. Your advisor can help you design an ownership structure that's right for you. ■

NEW RULES FOR COVID-RELATED PAID SICK TIME AND LEAVE

Under the Families First Coronavirus Response Act (FFCRA), enacted in March of 2020, employees could (through December 31, 2020) take paid sick time and paid family leave to care for themselves or loved ones because of COVID-19. In turn, eligible employers could claim tax credits to offset costs of the leave.

If your business has granted such sick time or leave, be advised that the American Rescue Plan Act (ARPA), signed into law in March 2021, changed some of the applicable rules. This was after the Consolidated Appropriations Act (CAA), passed in December of 2020, extended the tax credits.

Specifically, the CAA extended the credits through March 31, 2021. The ARPA then extended them through September 30, 2021. And the amount of wages for which

an employer may claim the paid family leave credit in a year has increased from \$10,000 to \$12,000 per employee.

The paid family leave credit has also been expanded to allow employers to claim the credit for leave provided for the reasons included under the previous employer mandate for paid sick time. For the self-employed, the number of days for which individuals can claim the paid family leave credit has been increased from 50 to 60 days.

In addition, the paid sick and family leave credit can be claimed by employers who provide paid time off for employees to obtain the COVID-19 vaccination or recover from an illness related to an immunization.

The paid sick time and leave originally introduced under the FFCRA, and now updated under the CAA and ARPA, remains an important relief measure for both businesses and their employees. Contact our firm for further information. ■

5 KEY POINTS ABOUT BONUS DEPRECIATION

Like most business owners, you've probably heard about 100% bonus depreciation. It's available for a wide range of qualifying asset purchases. But there are many important details to keep straight. Here are five key points about this powerful tax-saving tool:

1. It's scheduled to phase out. Under current law, 100% bonus depreciation will be phased out in steps for property placed in service in calendar years 2023 through 2027. Thus, an 80% rate will apply to property placed in service in 2023, 60% in 2024, 40% in 2025, and 20% in 2026, and a 0% rate will apply in 2027 and later years.

For some aircraft (generally, company planes) and for the pre-January 1, 2027, costs of certain property with a long production period, the phaseout is scheduled to take place a year later, from 2024 to 2028. Of course, Congress could pass legislation to extend or revise the above rules.

2. Bonus depreciation is available for new and most used property. In the past, used property didn't qualify. It currently qualifies unless the taxpayer previously used the property or unless the property was acquired in specific forbidden transactions. (These are, generally, acquisitions that are tax-free or from a related person or entity.)

3. Taxpayers should sometimes elect to turn it down. Taxpayers can elect to reject bonus depreciation for one or more classes of property. The election out may be useful for certain businesses. These include sole proprietorships and business entities taxed under the rules for partnerships and S corporations that want to

prevent "wasting" depreciation deductions by applying them against lower-bracket income in the year property was placed in service — instead of against anticipated higher bracket income in later years. Note that business entities taxed as "regular" corporations (in other words, those that aren't S corporations) are taxed at a flat rate.

4. Bonus depreciation is available for certain building improvements. Before the 2017 Tax Cuts and Jobs Act (TCJA), bonus depreciation was available for two types of real property: 1) land improvements other than buildings, such as fencing and parking lots, and 2) qualified improvement property, a broad category of internal improvements made to non-residential buildings after the buildings are placed in service.

The TCJA inadvertently eliminated bonus depreciation for qualified improvement property. However, the CARES Act of 2020 made a retroactive technical correction to the TCJA. The correction makes qualified improvement property placed in service after December 31, 2017, eligible for bonus depreciation.

5. 100% bonus depreciation has reduced the importance of Section 179 expensing. If you own a smaller business, you've likely benefited from Sec. 179 expensing. This is an elective benefit that — subject to dollar limits — allows an immediate deduction of the cost of equipment, machinery, off-the-shelf computer software and some building improvements. Sec. 179 has been enhanced by the TCJA, but the availability of 100% bonus depreciation is economically equivalent and has greatly reduced the cases in which Sec. 179 expensing is useful. ■

TAX CALENDAR

SEPTEMBER 15

- Third quarter estimated tax payments are due for individuals, trusts and calendar-year corporation and estates.
- If an extension was obtained, partnerships need to file their 2020 Form 1065 by this date.
- If an extension was obtained, S-corporations need to file their 2020 Form 1120S by this date.
- If the monthly deposit rule applies, employers must deposit the tax for payments in August for Social Security, Medicare, withheld income tax and nonpayroll withholding.

SEPTEMBER 30

- Calendar-year trusts and estates on extension must file their 2020 Form 1041.

OCTOBER 15

- If an extension was obtained, individuals need to file their 2020 Form 1040 by this date.
- If an extension was obtained, Corporations need to file their 2020 Form 1120 by this date.

CURTAILING TAX SURPRISES WITH CRYPTOCURRENCY

As investing in Bitcoin, Dogecoin and other cryptocurrencies becomes increasingly popular, investors need to understand the potential tax ramifications. Unlike traditional currency, the IRS views cryptocurrency as *property* for federal income tax purposes and even asks about it on IRS Form 1040.

Many transactions involving cryptocurrency — such as purchases of goods or services — become taxable events where the purchase is also considered a sale. In addition, certain changes to the blockchain (the distributed digital “ledger” on which cryptocurrency transactions are typically recorded) can trigger taxable income.

GAINS AND LOSSES

Because cryptocurrency is property, investors recognize a capital gain or loss when they sell it in exchange for traditional currency.



As with other capital assets, the amount of gain or loss is the difference between the adjusted basis in the cryptocurrency (usually, the amount paid to acquire it) and the amount for which it's sold. And, as with other capital assets, gain or loss may be

short term or long term, depending on whether an investor held the cryptocurrency for more than one year. If cryptocurrency is sold at a loss, there may be limitations on the deductibility of the capital losses.

Cryptocurrency owners often are surprised to discover that using cryptocurrency to pay for goods or services can also trigger a capital gain or loss. Let's say you purchased 10 units of cryptocurrency 10 years ago for \$1,000 each, or a total of \$10,000. This year, when the cryptocurrency's price has climbed to \$5,000 per unit, you use it to purchase a \$50,000 car. Assuming your adjusted basis in the cryptocurrency is \$10,000, you'll recognize a \$40,000 long-term capital gain. Generally,

our gain or loss is the difference between your adjusted basis in the cryptocurrency and the fair market value of the goods or services you receive in exchange for it.

FORKS AND DROPS

In some cases, a cryptocurrency owner may recognize taxable income because of certain blockchain events. Taxable income may be triggered even if you don't conduct transactions or take any other actions with the cryptocurrency.

IRS guidance in 2019 addressed the tax implications of two types of blockchain events: “hard forks” and “airdrops.” A hard fork occurs “when a cryptocurrency on a distributed ledger undergoes a protocol change resulting in a permanent diversion from the legacy or existing distributed ledger.” Put much more simply, it's when a single cryptocurrency is split in two.

A hard fork may or may not be followed by an airdrop, which the IRS describes as “a means of distributing units of a cryptocurrency to the distributed ledger addresses of multiple taxpayers.” According to the guidance, when an airdrop follows a hard fork, it “results in the distribution of units of the new cryptocurrency to addresses containing the legacy cryptocurrency.” In simpler terms, it's when “free coins” representing the new cryptocurrency are dropped into the existing cryptocurrency wallets of the owners of the legacy cryptocurrency.

If the new cryptocurrency isn't airdropped or otherwise transferred to an account of the legacy cryptocurrency's owner, a hard fork doesn't trigger taxable income. On the other hand, if a hard fork is followed by an airdrop (which enables owners to immediately dispose of the new cryptocurrency), the owner recognizes ordinary income in the year the new cryptocurrency is received.

STAY CURRENT

Buying and selling cryptocurrency involves significant risk, including the possibility you could lose part or all of the money you've invested. Tax treatment of cryptocurrency is also subject to change. The IRS will likely continue to provide guidance on the distinctive tax issues presented by cryptocurrency. We can help you stay current on these developments and work with you to avoid unpleasant tax surprises. ■

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