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July 2024

Tax-Saving Tips

## Claim Up to $32,220 in Missed 2021 Self-Employed COVID-19 Sick and Family Leave Credits Today

Were you self-employed during 2021? If so, there is a good chance that you could have qualified for COVID-19 sick and family leave credits worth as much as $32,220.

If you're like many self-employed individuals or partners, you probably never heard about these tax credits. Unlike employee retention credit for employers, the special temporary credits for the self-employed received relatively little publicity. Many tax professionals were unaware of them. As a result, many self-employed individuals and partners never applied for them.

You qualified for the credits if you could not work or telework for various COVID-related reasons—for example, if you suffered from COVID-19; were under quarantine; underwent COVID testing; or looked after a friend, roommate, or family member impacted by the virus.

There are four separate credits:

1. Credit for Sick Leave—January 1, 2021, through March 31, 2021
2. Credit for Family Leave—January 1, 2021, through March 31, 2021
3. Credit for Sick Leave—April 1, 2021, through September 30, 2021
4. Credit for Family Leave—April 1, 2021, through September 30, 2021

The COVID-related sick leave credit was for up to 10 days from January 1, 2021, through March 31, 2021, plus an additional 10 days from April 1, 2021, through September 30, 2021. The maximum credit was $511 per day ($200 per day if you cared for others).

The COVID-related family leave credit was capped at $200 per day. Up to 50 days of credits were available from January 1, 2021, through March 31, 2021, plus an additional 60 days from April 1, 2021, through September 30, 2021. From January 1, 2021, through March 31, 2021, the credit was available only if you needed to care for a child whose school was closed or whose caregiver was unavailable because of COVID. From April 1, 2021, through September 30, 2021, lawmakers greatly expanded eligibility to include caring for yourself, roommates, friends, and relatives.

You were supposed to claim the credits on your 2021 tax return. But if you overlooked the credits, don't worry. You can still claim them by amending your 2021 tax return. You need to file a completed 2021

IRS Form 7202, Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals, along with Form 1040-X.

To determine your eligible sick and family leave days, you'll likely have to consult your calendar for 2021, emails, vaccination or other medical records, school records, or other records showing the days you could not work for COVID-related reasons.

You don't need to file any documentation with your amended return. Just keep it with your tax records.

You must file your amended return within three years (including extensions). The deadline is April 18, 2025, or if you filed for an extension, up to October 15, 2025. But why wait? Amend your 2021 tax return today, and you'll get your money as soon as possible.

# Shutting Down Your S Corporation

As you consider the process of shutting down your S corporation, it is crucial to understand the federal income tax implications that come with it. Here, I outline the tax basics for the corporation and its shareholders under two common scenarios: stock sale and asset sale with liquidation.

## Scenario 1: Stock Sale

One way to shut down an S corporation is to sell all your company stock. The gain from selling S corporation stock generates a capital gain. Long-term capital gain tax rates apply if you held the shares for more than a year. The maximum federal rate for long-term capital gains is 20 percent, but this rate affects only high-income individuals.

If you are a passive investor, you may also owe the 3.8 percent Net Investment Income Tax (NIIT) on the gain. But if you actively participate in the business, you are exempt from the NIIT. Additionally, state income tax may apply to the gain from selling your shares.

## Scenario 2: Asset Sale and Liquidation

A more common way to shut down an S corporation involves selling all its assets, paying off liabilities, and distributing the remaining cash to shareholders. Here's how the tax implications unfold.

**Taxable gains and losses.** The S corporation recognizes taxable gains and losses from selling its assets. These gains and losses are passed to shareholders and reported on their personal tax returns. You will receive a Schedule K-1 showing your share of the gains and losses to report on your Form 1040.

**Long-term gains and ordinary income.** Gains from assets held for more than a year are typically taxed as Section 1231 gains at long-term capital gains rates. But gains attributable to certain depreciation deductions are taxed at higher ordinary income rates, up to 37 percent. Real estate depreciation gains attributable to straight-line depreciation can be taxed up to 25 percent.

**NIIT considerations.** Passive investors may owe the 3.8 percent NIIT on passed-through gains, while active participants are exempt.

**Liquidating distributions.** The cash distributed in liquidation that exceeds the tax basis of your shares results in a capital gain, taxed as a long-term capital gain if held for more than a year. If the cash is less than the basis, it results in a capital loss.

## Tax-Saving Strategy for Asset Sales

Your number one strategy for tax savings is to allocate more of the sale price to assets generating lower-taxed gains (e.g., land, buildings) and less to those generating higher-taxed ordinary income (e.g., receivables, heavily depreciated assets).

## Compliance and Reporting

Report asset sales and allocations on IRS Form 8594 (Asset Acquisition Statement Under Section 1060). File the final federal income tax return using Form 1120-S, including final shareholder Schedule K-1s.

# Know the Exceptions to the 10 Percent Penalty on Early IRA Withdrawals

Early withdrawals from a traditional IRA before age 59 1/2 generally incur a 10 percent penalty tax on the taxable portion of the withdrawal. There are several exceptions to this rule that can help you avoid the penalty under specific circumstances. Below, we have outlined the key exceptions that may apply to your situation.

**Substantially equal periodic payments.** You can arrange for a series of substantially equal periodic payments. This method requires careful calculation and adherence to strict rules but allows penalty-free withdrawals.

**Medical expenses.** Withdrawals for medical expenses exceeding 7.5 percent of your adjusted gross income, or AGI, are exempt from the penalty.

**Higher education expenses.** You can use penalty-free withdrawals for qualified higher education expenses for you, your spouse, and your children.

**First-time home purchase.** You can withdraw up to $10,000 (lifetime limit) for qualified home acquisition costs without penalty.

**Birth or adoption.** You can withdraw up to $5,000 for expenses related to the birth or adoption of a child.

**Emergency expenses.** Starting January 1, 2024, you can withdraw up to $1,000 annually for emergency personal expenses without penalty.

**Disaster recovery.** Withdrawals for qualified disaster recovery expenses are exempt from the penalty, up to an aggregate limit of $22,000.

**Disability.** If you are disabled and cannot engage in substantial gainful activity, you can withdraw funds without penalty.

**Long-term care.** Beginning December 29, 2025, you can take penalty-free withdrawals for qualified long-term care expenses.

**Terminal illness.** Withdrawals due to terminal illness are exempt from the penalty.

**Post-death withdrawals.** Amounts withdrawn after the IRA owner's death are not subject to the penalty.

**Military reservists.** Active-duty military reservists called to duty for at least 180 days can withdraw funds without penalty.

**Health insurance premiums during unemployment.** If you receive unemployment compensation for 12 consecutive weeks, you can withdraw funds to pay for health insurance premiums without penalty.

**Domestic abuse victims.** Starting January 1, 2024, you can take penalty-free withdrawals of up to $10,000 if you are a victim of domestic abuse.

**IRS levies.** Withdrawals to pay IRS levies on the IRA account are not subject to the penalty.

It's important to note that SIMPLE IRAs incur a 25 percent penalty for early withdrawals within the first two years of participation. Additionally, Roth IRAs have different rules, allowing penalty-free access to contributions but potentially taxing and penalizing withdrawals of earnings.