Seven Tips to Help You Prepare for Tax Season

Everyone knows some variation of the Benjamin Franklin quote, "In this world, nothing can be said to be certain except death and taxes." We think that there is a little more to life than those two items but note that it is important to plan for both. With Tax Day on April 15 this year, and the end of 2021 behind us, it's time to start getting ready for tax season. Here are seven tips that will keep you ahead of the game and get you ready to file.

1. Gather your 2021 records. Sometimes these will be mailed to you, but other times you will find them in your online accounts, and they include W-2s; 1099-MISCs; SSI statements; documentation of income from investment properties, alimony payments, debt cancellation, or property taxes; statements of medical or higher education expenses; receipts from charitable contributions; account statements showing IRA or HSA contributions; and statements of mortgage or student loan interest. Basically, you want to have proof for money that you had coming in to and out of your household so that you can use those amounts in your year-end tax forms.

2. Determine if any life changes affect your filing status. Did you get married or divorced during 2021? Did you have any children? If you got married during 2021 – even if it was on December 31 – you will have to change your status from single to either married filing jointly or married filing separately. On the flip side, if your divorce was finalized in 2021, you will need to file as single or head of household (if you have a child or other qualified dependent living in your home). Having a child may change your filing status if you are unmarried; it also may allow you to access tax breaks that are otherwise unavailable.

> **Note:** If your spouse passed away in 2021, you can likely file your taxes as married filing jointly in 2022 despite this event. You also may be able to file your taxes as a qualifying widower for two years after your spouse's death provided you have a child you support and can claim as a dependent. To learn more about your filing options if your spouse passed away, click **here**.

3. Max out retirement account contributions. If you have an IRA, you can contribute to your account up until the tax deadline (April 15, 2022) and have the contribution count for the prior year (2021). The contribution limit for both 2021 and 2022 is $6,000 (or $7,000 if you are older than 50). It is important to note this amount is combined for both your traditional and Roth IRA accounts (if you have both); you cannot contribute $6,000 to each.

> **Note:** If you contribute to an employer-sponsored retirement plan, you **cannot** contribute after December 31 or after receiving your last paycheck of 2021.

4. Watch out for scams. Every year, scammers find new and innovative ways to try to get personal information or money from individuals who are filing their taxes. Often, these scams come in the form of phone calls in which scammers identify themselves as calling from the IRS or the U.S. Treasury and demand immediate payment of a bill, neglect to advise you of your rights as a taxpayer, threaten to involve law enforcement, and/or ask for identifying information (like your Social Security number). **The IRS initiates contact through the postal service and will very rarely contact you by phone. They will *never* email, text, or contact you via social media.** If you get a suspicious phone call or are contacted in another way and it doesn't feel right, immediately cease contact without giving away any information. The IRS also asks that you report scams to the Treasury Inspector General for Tax Administration **online** or by phone at **800-366-4484.**

5. Know how COVID-19 affects your income. If you received an **Economic Impact Payment** during 2021, it does not count as taxable income and does not need to be reported as such on your taxes. Furthermore, it will not reduce the amount of your refund nor will it increase the amount that you owe, as it was an advance payment of the Recovery Rebate Credit

The only way an Economic Impact Payment will affect your taxes is if you did not receive the full amount of the Economic Impact Payment, set at $1,400 for single filers, $2,800 for those married filing jointly, and an additional $1,400 for each qualifying child. If you received less than the full amount of the Economic Impact Payment, you may be eligible to claim a Recovery Rebate Credit. In this case, your check will reduce the amount of taxes that you owe or be included in your refund. Learn more **here**.

> **Note:** If you received unemployment benefits during 2021, you will have to pay income tax on those earnings.

Beginning in July 2021, families with children may have received monthly **Child Tax Credit payments** of $300 for children under age 6 and $250 for those between 6 and 17 years old. These families, and those who may have been eligible to receive Child Tax Credit payments but did not, must file their taxes in 2022 to determine what amount of Child Tax Credit they can claim for 2021.

6. File your taxes on time, pay what you owe, and avoid penalties. Taxes are due on April 15, 2022. If you know that you are unable to finish filing your taxes on time, you can file Form 4868 by April 15, 2022, to ask for an extension. This will give you until October 15, 2022, to file your 2021 taxes. If you file late and have not submitted Form 4868 by Tax Day, you may be penalized. The IRS charges two different late fees:

- **Failure-to-file penalty:** If you are late to file and owe money, the IRS can charge you a late-filing fee of 5% per month on the amount owed, plus interest.
- **Failure-to-pay penalty:** If you file on time, but are late paying *any* money that you owe, the IRS can charge 0.5% per month on the amount due, plus interest.

7. Use the IRS's Interactive Tax Assistance tool to find the answers to all your questions. The IRS's Interactive Tax Assistance tool can help you find the answers to any questions that you have over a variety of topics, including filing requirements, dependents, retirement, deductions, and tax credits. If you are still uncertain how to file or if your taxes are complex, it would be best to consult a professional preparation service or a tax accountant to ensure your taxes are filed on time and stress-free. The Volunteer Income Tax Assistance program offers free tax advice and help to members of the military and their families. Find a location **here**.

Wondering whether you will receive a tax form from Navy Mutual?

A disbursement from a life insurance policy or annuity may result in the policy owner or beneficiaries receiving a 1099.

You may receive a **1099-R** if you surrender a whole life insurance policy or annuity for its cash value, receive payments from a SPIA or settlement option plan, or receive a distribution from a Modified Endowment Contract (MEC). Loan transactions on MEC policies, including signed loans, Automatic Premium Loans, and interest rollovers will generate a 1099-R. Paying off a loan at the time of a 1035 exchange or paying off a loan as part of Reduced Paid Up benefit will also generate a 1099-R. You may receive a 1099-R if you receive distributions from Fixed Period, Life Income, and Single Premium Immediate Annuity plans.

You may receive a **1099-INT** if you were the beneficiary of a life insurance policy and were paid any interest on top of the death benefit or if you receive payments from a SPDA quarterly interest plan. You may also receive a 1099-INT if you were paid interest on LTC contracts.

Recipients of disbursements from LTC contracts will receive both a **1099-LTC** and a 1099-INT. The 1099-LTC will reflect the non-taxable basis portion of LTC payments. The 1099-INT will reflect the taxable interest portion of LTC payments.

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If you want to learn more about life insurance products and what may be right for your family, schedule **an appointment** with a representative today, or call us at **800-628-6011.**