

# Hess & Hess, LLP

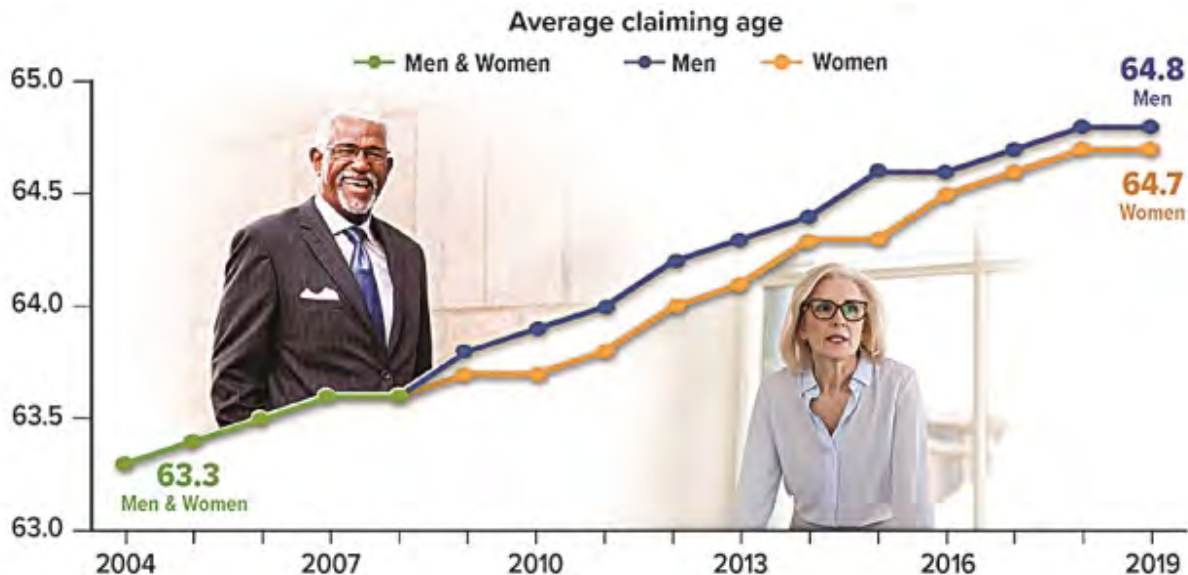
## Quarterly Tax Newsletter

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## More People Delay Claiming Social Security

The average age for claiming Social Security retirement benefits has been steadily rising. Older Americans are working longer, in part because full retirement age is increasing incrementally from 66 to 67. A worker may begin receiving Social Security retirement benefits as early as age 62, but monthly benefits will be permanently reduced by as much as 30% if claimed before full retirement age — a strong incentive to wait.



Source: Social Security Administration, 2020

# Due Date Approaches for 2020 Federal Income Tax Returns

Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of your 2019 tax return and gathering W-2s, 1099s, and deduction records. You'll need these records whether you're preparing your own return or paying someone else to prepare your tax return for you.

Don't procrastinate. The filing deadline for individuals is generally Monday, May 17, 2021.

## Filing for an Extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*. Filing this extension gives you an additional five months (to October 15, 2021) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

Filing for an automatic extension does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the May filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

**Note:** *Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances, you are generally allowed an automatic one-month extension (to June 15, 2021) without filing Form 4868, though interest will be owed on any taxes due that are paid after the May filing due date. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.*

## What If You Owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible.

If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

## Expecting a Refund?

The IRS has stepped up efforts to combat identity theft and tax refund fraud. More aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, the IRS is required to hold refunds on all tax returns claiming the earned income tax credit or the additional child tax credit until at least February 15.

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a tax return. However, note that in 2020 the IRS experienced delays in processing 2019 paper tax returns due to limited staffing during the coronavirus pandemic.

So if you are expecting a refund on your 2020 tax return, consider filing as soon as possible and filing electronically.

## Due Dates for 2020 Tax Returns



# Real Estate for Income and Diversification

An estimated 145 million Americans own real estate investment trusts (REITs) in their retirement accounts and other investment funds.<sup>1</sup> The primary appeal of REITs is the potential for a consistent income stream and greater portfolio diversification. Of course, like all investments, REITs also have risks and downsides.

## Pooled Property Investments

An equity REIT — the most common type of REIT — is a company that uses the combined capital of a large number of investors to buy and manage residential, commercial, and industrial income properties. A REIT may focus on a specific type of property, but REIT properties in general might range from shopping malls, apartment buildings, and medical facilities to self-storage facilities, hotels, cell towers, and timberlands. Equity REITs derive most of their income from rents.

Under the federal tax code, a qualified REIT must pay at least 90% of its taxable income each year in the form of shareholder dividends. Unlike many companies, REITs generally do not retain earnings, so they may provide higher yields than some other investments, which might be especially appealing in the current low-interest environment. In January 2021, equity REITs paid an average dividend of 3.55%, more than double the 1.55% average dividend paid by stocks in the S&P 500 index.<sup>2-3</sup>

You can buy shares in individual REITs, just as you might buy shares in any publicly traded company, or you can invest through mutual funds and exchange-traded funds (ETFs).

## Income vs. Volatility

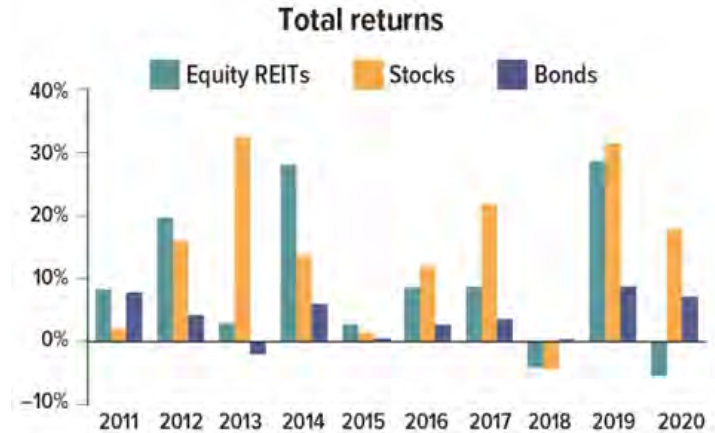
Equity REITs are effective income-generating assets, but share prices can be sensitive to interest rates, partly because companies often depend on debt to acquire rent-producing properties, and interest rates can affect real estate values. Also, as rates rise, REIT dividends may appear less appealing to investors relative to the stability of bonds offering similar yields.

For buy-and-hold investors, the income from REIT dividends may be more important than short-term share-price volatility. Moreover, REIT share prices do not always follow the stock or bond markets, making them a helpful diversification tool (see chart).

While REITs are traded on the stock market, they are in some respects a unique asset class with characteristics of both stocks and bonds. So holding REITs not only may diversify your stock holdings but might also broaden your approach to asset allocation. Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

## A Class of Their Own

Over the last decade, equity REITs have performed very differently than stocks and bonds. REITs were slower than stocks to recover from the early 2020 bear market, which could make their lower valuations and higher yields appealing for long-term investors.



Sources: Nareit, 2021; S&P Dow Jones Indices, 2021; Morningstar, 2021. Equity REITs are represented by the FTSE Nareit All Equity REIT index, U.S. stocks by the S&P 500 total return index, and bonds by the Bloomberg Barclays U.S. Aggregate Bond TR index. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

## Real Estate Risks

There are inherent risks associated with real estate investments and the real estate industry that could adversely affect the financial performance and value of a real estate investment. Some of these risks include a deterioration in national, regional, and local economies; tenant defaults; local real estate conditions, such as an oversupply of, or a reduction in demand for, rental space; property mismanagement; changes in operating costs and expenses, including increasing insurance costs, energy prices, real estate taxes, and the costs of compliance with laws, regulations, and government policies.

The return and principal value of all investments, including REIT shares, fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

*Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

1-2) Nareit, 2021 (2019 data for REIT ownership)

3) S&P Dow Jones Indices, 2021

# Tax Filing Information for Coronavirus Distributions

In March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The legislation included a provision that allowed qualified retirement plan participants and IRA account holders to take penalty-free early distributions totaling no more than \$100,000 between January 1 and December 31, 2020. If you took advantage of this measure, here's what you need to know for tax filing.

## What Is a Coronavirus Distribution?

In order for a distribution to be qualified under the CARES Act, it must have been made to a qualifying individual before December 31, 2020. You qualify if you, your spouse, or dependents were diagnosed with the virus, or if you, your spouse, or someone who shares your principal residence experienced a pandemic-related financial setback as a result of:

- A quarantine, furlough, layoff, or reduced work hours
- An inability to work due to lack of child care
- Owning a business forced to close or reduce hours
- Reduced pay or self-employment income
- A rescinded job offer or delayed start date for a job

## The Three-Year Rules

A key provision in the Act allows the distribution(s) to be spread "ratably" over three years for purposes of calculating tax payments. In other words, the total can be reported in equal amounts on your 2020, 2021, and 2022 tax returns. For example, if you received a

\$15,000 distribution, you could report \$5,000 in income for each of the three years. However, if you prefer, you can generally report the entire distribution in your 2020 tax filing.

Another provision allows you to repay all or a part of your coronavirus distribution to an eligible retirement plan within three years from the day after the date the distribution was received. Repayments will be treated as if you enacted a trustee-to-trustee transfer, and no federal income taxes will be owed. (A repayment to an IRA is not considered a rollover for purposes of the one-rollover-per-year rule.)

If you pay your income taxes prior to repaying the distribution, your repayment will reduce the amount of the distribution income you report in a subsequent year. Or instead, you may file an amended return, depending on your specific situation.

Consider speaking with a tax professional before making any final decisions.

## How to Report Distribution Income

If you received a coronavirus distribution(s) in 2020, you should use Form 8915-E, Qualified Disaster Retirement Plan Distributions and Repayments, to report the income as part of your 2020 federal income tax filing. You can also use this form to report any recontributed amounts.

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## IMPORTANT DISCLOSURES

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