



## **Covid-19 Resources**

### **FAQs – June 24, 2021**

Getting you the answers to the many questions related to Covid-19 and its impact to you is our first priority. Our goal is to get you answers and information that is in **your** best interest and not get waylaid with distractions. Below are the most recent questions we have been fielding.

#### **Q1 – What is this I hear about Washington creating a tax on capital gains? I thought we don't have an income tax in Washington.**

Governor Inslee signed a bill in May that will create a tax on some capital gains for Washington individuals, set to go into effect in 2023. It is a 7% tax on profits above \$250,000. That floor is the same for both single and jointly filed returns.

However, it is already under legal threats and will likely have to pass several hurdles in court before it actually is in force. To begin with, there is a well-established legal precedent that makes income taxes illegal in Washington. To avoid this, the new law frames it as an "excise tax," even though the IRS and every state taxing agency calls the tax on capital gains an income tax.

There are exemptions for retirement accounts, real estate, farms, and forestry. It is not clear if the real estate must be used as a residence by the taxpayer, or if the exemption would also include properties that are rented out. Small family-owned businesses are also exempt, although exactly what qualifies for this exception has not been clearly defined.

Only long-term capital gains would be subject to the tax. Short-term gains are already taxed at the federal level at ordinary tax rates and are not included in this state law. Any deferrals or exemptions at the federal level would also be allowed, such as the deferral for like-kind exchanges under Sec. 1031. Essentially, you would take Schedule D from your Form 1040 and use the amount that is reported under long-term capital gains.

If the capital gains are subject to another state's income tax, such as the sale of real estate located outside of Washington, the tax paid on that gain could also be used to offset the Washington tax.

There are also exceptions for certain depreciable tangible personal property used in a business. However, when dental practices are sold, the majority of the sale is allocated to goodwill, which is considered a capital gain and would likely be taxed unless the dental practice falls under the undefined "small family-owned business" definition.

With the legal challenges and unclear definitions, much remains to be seen before the law takes effect in 2023. We will pass along any updates as they become available.

## Q2 – Do I need to start paying for long-term care insurance?

Beginning January 1, 2022, Washington employers must withhold a new 0.58 percent payroll tax from all employee wages, with no cap on the amount, and remit those payments to the State quarterly. Unlike the Washington Paid Family Medical Leave (WPFML) law, there is no employer-funded portion.

Sole proprietors, independent contractors, and members of partnerships or LLCs are exempt. Essentially, anyone who receives a W-2, including corporate officers, is subject to the new tax.

However, covered employees have a small window to receive an exemption from paying the tax if they attest to having sufficient LTC insurance purchased before November 1, 2021. The Employment Security Department (ESD) will accept applications for this exemption **only between October 1, 2021, and December 31, 2022.**

If ESD approves the application, the exempt employee must submit written notification to the employer. Employers must retain those notifications. Exempted employees cannot opt back into the program. ESD is in the process of drafting rules that include the attributes of a qualifying LTC policy. Updates can be found here: <https://esd.wa.gov/newsroom/rulemaking/ltss>

If an employee chooses to purchase their own long-term coverage, premiums may result in a tax deduction, although the annual deduction is limited by age, and they are part of itemized medical deductions, which must exceed 7.5% of your adjusted gross income before you get any tax benefit.

Higher-income employees may pay more for benefits than what they ultimately receive from the program. Employees who pay their premiums as required **and then leave the state would not be able to receive benefits.** Finally, anyone close to retirement may start paying premiums but never qualify for any benefits, as there are minimum thresholds for paying into the program before an employee is eligible for benefits.

Benefits will be available starting January 1, 2025, and can be used for a variety of services, including nursing facilities, assisted living facilities or adult family homes, home healthcare, wheelchair ramps, emergency alert devices, Meals on Wheels, transportation, caregiver support, memory care, and much more.

For additional information and updates on the new mandatory program visit [www.wacaresfund.wa.gov](http://www.wacaresfund.wa.gov).

## Q3 – Where is my refund?

As we have seen, the IRS has been playing catch-up over the last year in response to budget cuts and office closures under Covid-19. In addition to the regular amount of returns to process, they are now being inundated with amended payroll returns to retroactively claim the Employee Retention Credit. All these returns must be processed by hand.

For returns that are processed electronically, such as Form 1040, if you have received acknowledgement that the return has been filed, the IRS requests that you do not contact them to ask about the status. Refunds for electronically-filed 1040s appear to be taking around three weeks. For paper returns, including those for the Employee Retention Credit, there is no reliable timeframe at the moment.

**Dental Group, LLC** - We continue to work both in the office and remotely. Our meetings will be done via teleconference and or online collaboration. If you plan to drop off documents, please call ahead to coordinate a time when we will be in the office as there is no safe place to leave documents at the door.

If you have any questions, please do not hesitate to contact us directly at (425) 216-1612.

The online [Where's My Refund](#) tool likely remains your best option at this point. Have the following information from your tax return handy:

1. Social Security Number for Taxpayer
2. Filing Status (joint, single, head of household – Top of Page One of Form 1040)
3. Whole dollar amount of expected refund (Page 2 of 1040 – line 21(a))

If the IRS has received your return it will either indicate that “Your Tax Return is Still Being Processed” or if it has been processed it will indicate the expected refund date. If this tool does not locate your return you can check with us (or whoever prepared your income tax return) to verify that it was e-filed and accepted by the IRS.

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