January 2019

Dear Taxpayer:

Summary of 2018 - WOW.

Based on the work we have done estimating some of our client's 2018 income tax returns it appears that the new tax law will actually save a lot of our clients' money. The potential bad part is they adjusted the taxes that are withheld from everyone's paycheck so, even though your taxes may have gone down, it is highly likely that your 2018 refund will be smaller than 2017.

There are several items under the new law that will complicate the preparation of your tax return, we will outline these below. Just so you know, a portion of the law makes us responsible for verifying some of the information on your return. We are required to obtain adequate verification or we will be subject to penalties of $520.00 per item per return. So, please expect some "stupid" questions that we normally would not bother you with.

Please check out our website (www.AccountantsGroup.com) for our Newsletter, Directions, Engagement Letters, Vehicle Information Summary, Summary of Recordkeeping Requirements, Referrals and other useful information and links.

We occasionally send out emails and letters to advise our clients of things that may affect them. Please make sure we have your current email and mailing address.

Please do not wait to schedule your appointment. If you have not received all of your tax documents or if the IRS announces they are delaying the processing of returns please call and schedule an appointment anyway. We can prepare your return and will transmit it as soon as you are able to provide any missing data.

Our annual list of things to be aware of:

1. **New Tax Law:** You are most likely aware of President Trump's new tax law that is effective in 2018. It would be impossible to list all of the things that this legislation covers so we will just outline the highlights for individuals:
    - There are no more deductions for dependents, however, the credit for dependents under the age of 17 has increased subject to limitations based on your income.

- The deduction for State & Local Taxes (SALT) which include Real Estate, Sales and State & Local income taxes is limited to $10,000.
- The Income tax brackets for individuals have been widened and the tax rates reduced.
- The mortgage interest deduction has been further limited and, except for special circumstances, the interest on Home Equity loans is no longer deductible.
- The Standard Deduction has been increased to $24,000 ($24,400 for 2019) for Married taxpayers filing jointly and $12,000 ($12,200 for 2019) for single taxpayers
- There is a deduction of twenty percent (20%) of your net business income that may be available depending on your type of business and your taxable income.
- Miscellaneous Itemized Deductions such as Investment fees, Employee Business Expenses, Accounting & some legal fees that are subject to the 2% exclusion are no longer deductible.
- The new law allows taxpayers to defer Capital Gains tax by investing the money in a Qualified Opportunity Fund (QOF). These funds will be set up by investment advisors to aid in the development of low-income communities. These are new investment funds and there is not a lot of information available. Please contact us if you are interested in taking advantage of this opportunity.

2. **Illinois tax rates:** Illinois has raised its personal income tax rate from 3.75% to 4.95% effective 7/1/2017. This adjustment should be reflected in your withholding tax so, hopefully, it will not affect your refund.

3. **§529 Plans:** The new tax legislation allows for §529 plans to be used to pay for K – 12 school expenses but, it requires the plan to be amended to allow for this option. Many states, including Illinois, have not amended their plan and investments in these §529 plans cannot be used to pay for K – 12 school expenses.

4. **Affordable Care Act (ACA or Obamacare):** Is still in effect for 2018 & 2019 and there are quite a few things that you need to be aware of:

   - Should you qualify for a subsidy it is only available if you purchase your insurance through an exchange.
   - If you obtained a subsidy from an exchange you will receive a Form 1095A and must file a tax return, even if your income is below the filing requirement. Please be sure to give us a copy of this form. You could be subject to additional taxes, penalties and interest if we do not report the information shown on the form on your income tax return.
   - There are several 1095 series tax forms that may be mailed to you. 1095A, 1095B and/or 1095C. Please be sure to include these forms with your 2018 tax preparation information.
   - The amount of the subsidy is based on your actual income for 2018. When you applied for the insurance they asked some questions about your expected income. This estimate was used to calculate and pay an *ESTIMATED* subsidy. The actual amount of the subsidy will be determined when we prepare your 2018 income tax return and any credit used to pay for insurance will be adjusted to actual, causing you to receive a refund or owe additional taxes.
   - You should notify the exchange immediately when there is a change in your household income or status.
   - The credit is based on your Household Income. Should you qualify for the health insurance credit, we will need to know the income of each person that is a dependent or that is covered by your health insurance. We will advise you what is needed when we prepare your tax return.
   - Since most of the available plans are High Deductible plans they will allow you to qualify to set up a Health Savings Account (HSA). You may find it cheaper to take a High

Deductible plan and set up a HSA. Please contact us if you would like assistance in making this decision.

- For 2018 you are required to have health insurance coverage and will be subject to a penalty unless you qualify for an exemption. There are some income exemptions that we can calculate when we prepare your tax return. However, the other exemptions must be applied for at www.HealthCare.Gov and are only available if you have a certificate number that is issued by this website. We are mentioning this because we will not be able to transmit your return if you qualify for an exemption and don't have an Exemption Certificate Number.

  They are estimating it will take several weeks to process exemption applications, so please apply for the exemption now so you will have the certificate when we prepare your return. But don't wait to make an appointment, we can collect all of your other data and add the exemption certificate number once you obtain it.

  We will be asking questions about your health insurance coverage. Please be prepared to tell us, for yourself, your spouse and each dependent, which months of the year you had insurance coverage.

5. **Penalty for not having Health Insurance** is complicated to compute but you need to know it is going up to a maximum of 2.5% of your income in 2018. While all of the other provisions of ACA continue to apply, this penalty currently expires for years beginning after 2018 - it will be interesting to see what Congress & the President comes up with for 2019.

6. **Health Savings Account (HSA) limits:** For 2018 the limits are $6,900 (2019 $7,000) for family coverage and $3,450 (2019 $3,500) for self only coverage. Individuals 55 & over can add $1,000. You cannot have a HSA once you start on Medicare.

   Please be sure to give us a copy of form 1099SA if you took any distributions from your HSA account during the year.

7. **Tuition credits and deductions:** We must have the form 1098T that each school issues in order to support the entries for education expenses. Please be sure to obtain a copy of this form and include it with your tax preparation data. Many schools do not mail this form; instead, they make it available through the student's online account. When this occurs you (or your dependent) will need to go online and print the form.

   Additionally, we will need to know the amount that was actually paid to the school during 2018. This includes amounts paid using student loans and payments made by others (grandparents, ex-spouses, etc.).

   We will not be able to finish your return without this information.

8. **The standard mileage rate** for the business use of your automobile for 2018 is 54.5¢ per mile. The 2019 rate is supposed to be the same as 2018.

   Auto use as well as all unreimbursed employee business expenses are no longer deductible unless you are self-employed.

9. **2018/2019 employee retirement plan contribution limits have changed:**

	To Age 49	50 & Over
IRA's (Roth & Trad)		
2018	$ 5,500	$ 6,500
2019	$ 6,000	$ 7,000
401(k) & 403(b)		
2018	$ 18,500	$ 24,500
2019	$ 19,000	$ 25,000
SIMPLE IRA		
2018	$ 12,500	$ 15,500
2019	$ 13,000	$ 16,000

10. **Roth IRA:** You may make contributions to a Roth IRA as long as your Adjusted Gross Income (AGI) is within the following parameters:

If your 2018 filing status is...	And your modified AGI is...	Then you can contribute...
married filing jointly or **qualifying widow(er)**	< $189,000	up to the limit
	≥ $189,000 but < $199,000	a reduced amount
	≥ $199,000	zero
married filing separately and you lived with your spouse at any time during the year	< $10,000	a reduced amount
	≥ $10,000	zero
single, **head of household**, or **married filing separately** and you did not live with your spouse at any time during the year	< $120,000	up to the limit
	≥ $120,000 but < $135,000	a reduced amount
	≥ $135,000	zero

11. **Charitable Contributions:** You are required to have proof of payment for all cash contributions, a log or estimate will not be accepted by the IRS. For contributions up to $250, you need proof of payment (cancelled check, receipt, credit card charge, etc). For contributions of $250 and over, you must have a "Qualified" receipt from the charity in your possession prior to filing your tax return. A receipt for any contribution is always the best supporting document. A "Qualified Receipt" must have a statement that the charity is a Qualified 501(c)(3) organization and it must specify the value of anything you received for the contribution or have a statement to the effect that you did not receive anything other than intangible religious benefits. The problem is: if the receipt is incorrect, once your return is filed you cannot obtain a corrected receipt. The IRS has shown zero tolerance in accepting receipts that are dated

after the date the return was filed or are not 100% correct - and they have been winning these cases in court.

For non-cash contributions, the quality of the merchandise must be at least "good" and you need a receipt from the charity (without values).

For non-cash contributions, we recommend you take a date stamped photo of the property and make a list of what was given. The list should contain a description, date of purchase, cost, condition and an estimate of the current value. Items valued at more than $5,000, determined "in the aggregate" (for example, three bags of designer clothes valued at $2,000 each and given to different charities would count as more than $5,000), need an appraisal.

Publicly traded securities do not require an appraisal but you must prove the value on the date of the contribution and we will need the date the stock was acquired and the cost. You should only donate securities that you have owned more than one year.

Please contact us before making gifts of $5,000 or more so we can explain exactly what you need to do.

(Salvation Army (https://satruck.org/Home/DonationValueGuide) and Goodwill Industries (https://www.goodwill.org/wp-content/uploads/2010/12/Donation_Valuation_Guide.pdf) maintain guides that you can use to determine the value of the property).

Traveling for Charity can generate income tax deductions. You do not get a deduction for your time but you can deduct your out of pocket costs for transportation (cars at 14¢ per mile), airfare, taxi's, hotels, food etc. But - the primary purpose of the travel has to be for charitable activities. You should get documentation from the charity to prove the intent of the travel and keep receipts for all expenses and a log of your automobile use. See IRS Publication 526 for additional information.

With the new limitations of State & Local taxes (SALT) to a maximum of $10,000, the loss of all of the 2% Miscellaneous Itemized deductions and new limits on Mortgage interest it is possible your charitable contributions will not be deductible. We will discuss how it may be possible for you to take advantage of a charitable deduction when we prepare your tax return but please ask if we don't bring it up.

12. **Home office:** Home office as well as all unreimbursed employee business expenses are no longer deductible unless you are self-employed.

13. **Foreign Financial Accounts:** The IRS continues to be extremely aggressive in this area and there are two separate forms that you may be required to file. One, if you have amounts in Foreign Financial Accounts that exceed $10,000 in total. A different Form is required if, for married taxpayers filing jointly, the balance at any time during the year was more than $150,000 or if the balance at the end of the year was more than $100,000 (one-half of these amounts for the other filing statuses). ***THIS IS SERIOUS;*** the penalty for not filing these returns can be as high as 50% of the balance in the account & in some cases up to $100,000 no matter how much is in the account.

    You do not need to disclose the ownership of foreign stocks, bonds, etc that are held by a U.S. Financial institution (your broker, United States based retirement plans or mutual funds).

    You could have a problem if you have a foreign trust, foreign investment account, own stock in a foreign company, participate in a foreign retirement plan, have signature authority over a foreign account (even if the money in the account is not yours) or, own a partnership or LLC that has foreign investments.

    The IRS Form 8938 and Department of Treasury FBAR (FinCEN Form 114) are now both due April 15^{th}. The FinCEN Form 114 has a separate filing requirement and is not a part of your regular tax return or our fee for preparing your income tax return.

14. **Records:** Detailed instructions regarding record keeping are available at www.IRS.gov . Look for Publication: 334, Tax Guide for Small Businesses; 463 Travel, Entertaining, Gifts and Car Expenses; 535, Business Expenses; 552, Record Keeping, Individuals. We have also published a limited explanation of

what records you need to keep on our web site (www.AccountantsGroup.com).

We cannot stress the need for proper records enough; if you get audited and do not have the appropriate logs, receipts etc, you will probably lose the deduction and may be subject to penalties.

15. **Audits:** The IRS's computer system is comparing information returns (form: W-2, 1095A, 1098, 1099, 1098-T, etc.) to income tax returns. They are also using the system to analyze returns to see if the return "makes sense" based on the information from the information returns and the data shown on the tax return.

    We mention this because there is a much higher likelihood that you will get a letter from the IRS questioning something on your return. Should this happen, please contact us immediately. We feel it is better if we at least review the correspondence before a response is given to the IRS (we generally prefer to actually provide the response and typically do not charge for this service).

16. **Mortgage Interest:** You are currently allowed to deduct the interest on mortgages taken out after 2017 (maximum of $750,000 in total mortgage balances) used to acquire or substantially remodel up to two homes as long as the home is the security for the loan. The interest on Home Equity loans is only deductible if the money was used to purchase or substantially improve the residence that the loan is secured by. For mortgages originally taken out before 2018 and the refinancing of these mortgages the $1,000,000 limit is still in effect.

    One issue is, when you refinance your residence or take a home equity loan, the interest on any cash you take out for things other than remodeling is not deductible as mortgage interest. You may be able to deduct the interest if the money was used to finance a business or to make investments, but you need to be able to prove the funds were used for these purposes.

Another problem is the mortgage must be secured by the residence. This has not been fully explained by the IRS but currently it appears that, if you refinance your home for $750,000, use $500,000 to pay off the existing mortgage that was used to buy the house and $250,000 to purchase a new second home, the interest on the $250,000 is not deductible.

17. **Illinois Education deductions** are available for up to $10,000 per taxpayer, per year that is contributed to an Illinois §529 Education Savings Plan (e.g. three contributions of $10,000 each to Illinois §529 plans on a joint return gives you a $20,000 deduction). Our investment advisors can assist you in selecting a plan that meets your investment objectives.

    Something to consider, if you have a child in college or a technical school but do not have money in a Illinois §529 plan, set up a Illinois Bright Start plan, fund it and immediately transfer the money to pay tuition, this will generate an Illinois Income tax deduction.

    Another thought is to transfer money in other states §529 plans to an Illinois plan and get a deduction.

18. **Gambling Winnings:** The IRS has taken the position that gambling losses can only offset gambling winning. You are required to maintain a log that shows, on a daily basis, the date, where you gambled, your personal net gambling winnings or losses and be able to prove where the money came from to make the wagers.

    The win/loss reports issued by casino's can be used to substantiate your log but the IRS will not accept them in lieu of a log.

    Like everything else this is a greatly simplified version of the rules. Please contact us if you have any significant gambling activity.

19. **Scams:** The IRS does not have your email address and will never contact you via email. Taxpayers are getting emails that indicate problems with a return and ask for personal data to "fix" the

problem. These are scams. Forward the email to phishing@irs.gov and delete it.

This is equally true for emails that you may receive from the state.

IRS has two publications regarding identity theft that you may find interesting; Publication 4524 and 5027.

Harassing phone calls & emails from the IRS are a scam. Even with all of the news about this and our frequent notices we still have clients contact us about phone calls and/or email they receive from persons that identify themselves as IRS agents and threaten the taxpayer with jail, seizing bank accounts and other bad things unless they pay the money they owe right away. Often these taxpayers do not owe anything, and the amount the person wants to collect is relatively small. Should you get one of these calls and actually owe the IRS money call 800.829.1040 or the phone number shown on notices you have received prior to the call or email. Call 800.366.4484 to report the contact if you do not owe the IRS anything. You can find additional information at https://www.irs.gov/newsroom/tax-scams-consumer-alerts

20. **Identity Theft:** There is a new IRS Form 14039 that you are supposed to file if your identity is stolen. Please contact us if you suspect you have been a victim of identity theft and need assistance preparing this form or have questions about what to do.

    Many taxpayers have been assigned a PIN number to include with their tax filing. A new number is issued each year, please be aware of correspondence from the IRS and be sure to provide us with your current PIN.

21. **Head of Household filing status, Earned Income Credit, American Opportunity and Child Tax Credit:** To prevent the abuse of these credits the IRS has imposed onerous rules, regulations and potentially exorbitant penalties on return preparers. Therefore, in addition to the normal questions we ask about whom a child resides with and their income, we are

required to see something that proves the child lives with you (school records, medical statements, day care records, a statement from your landlord, etc.) so please bring at least one of these documents so we can make a copy of it. We will also have additional questions for you to answer when we prepare your return.

22. **Cancellation of Debt:** You may have to report the reduction or cancellation of debt as income. Please advise us if you renegotiated or had any credit card or loan balances cancelled or reduced in 2018. If you find yourself in financial difficulty and are contemplating negotiating with credit card companies and/or filing for bankruptcy call us first. There can be serious income tax consequences from these actions, and you should be aware of them prior to negotiating a settlement.

23. **Cancellation of debt on principal residence:** The exclusion of this income expired at the end of 2017 and has not been renewed - yet.

24. **Mortgage Insurance deduction:** This is still deductible in 2018

25. **Medical Expenses:** The deductible for Medical expenses increases from 7.5% in 2018 to 10% for 2019 and future years.

26. **Hobbies:** Do you operate a home based business such as Mary Kay or Amway? Or have a business that consistently shows a loss? The IRS likes to classify these businesses as a Hobby which causes disastrous results on your income tax return. Should this happen to you the gross income is added to your adjusted gross income (and for Illinois residents, becomes subject to Illinois income tax) and the expenses (other than the purchase of products for resale) become Miscellaneous Itemized deductions which are no longer deductible. You need to seriously consider whether or not to participate in a home based business because you could have a business that loses money and still generates taxable income.

    You are responsible for proving that the business is entered into for a profit. IRS has repeatedly ruled that home based businesses and businesses that consistently show a loss are hobbies. You prove this is a bonafide business by maintaining business records such as a business checking account, mileage log, home office use log, consulting with advisors regarding how to make this a successful business, business insurance policy, separate phone number, etc. and keeping records of all of this. There is no guarantee here, the IRS has the last say and there is no definitive definition of what constitutes a "business". Refer to https://www.irs.gov/ newsroom/hobby-or-business-irs-offers-tips-to-decide, for a discussion of this issue.

27. **Estate & Gift Taxes:** The exclusion from Gift and Estate taxes is, per taxpayer, $11,400,000 for 2019 and $11,180,000 for 2018. This exclusion is now transferrable to a surviving spouse. Please contact us if your spouse died so we may advise you whether or not to file an estate return for them.

    The exclusion from state estate tax is often different than the federal exclusion and it may not be transferrable. For instance, the Illinois exclusion is $4.0M and it is not portable so, if your combined net worth is over $4.0M and you live in Illinois you could have an estate tax problem. If your net worth, including life insurance, is more than $4.0M please discuss how to avoid Illinois estate taxes with us.

    The annual Gift Tax exclusion is $15,000 for 2018 & 2019.

    We provide Estate planning and prepare Estate and Gift tax returns. Should you like to make use of our expertise in preparing these returns please advise your heirs, trustee and attorney of your preference of accountants.

28. **Health Insurance Expense:** If you are the owner of a company or a sole proprietorship business, it is important that the business pay the cost of the health insurance (including Medicare premiums). Should this be deducted from a personal account or you inadvertently pay it with a personal check you must have the business reimburse you before the end of the year.

29. **Business owners** with employees may not be able to deduct the cost of health insurance. This is relatively complicated so please contact us to discuss your specific situation.

30. **The Social Security** wage base for 2019 is $132,900 versus $128,400 for 2018.

31. **Income Tax Refunds**: IRS's goal is to issue 2018 refunds within 21 days of when the return is filed; however, it could take months to get your money. The IRS has initiated security procedures they use during the processing of returns (and are continually adjusting them) to prevent the acceptance of fraudulently filed income tax returns. These procedures slow the process of issuing refunds. If you have the misfortune of having your return pulled out of the system, it can take several months for the IRS to approve the refund. If you are unlucky enough to have someone use your (or a dependent's) Social Security number on a tax return it could take a year or more to obtain your refund.

    Illinois has been holding large refunds (over $1,000) until they have the money to pay them.

    You can avoid issues with this by adjusting your withholding so you do not get a large refund.

32. **Cut off dates**: Please be advised that we may not be able to complete returns received after March 15th by the April 15th due date. Should this occur we will automatically extend your return and finish it as soon as possible after April 15th.

    Should you owe taxes the IRS & state will charge you interest and a late payment penalty beginning on April 16th even though the return is extended.

    Our advice is to make your appointment or mail us your data early. We can easily add any missing information later and make the deadline or advise you how much to send in with the extension.

Accountants Group Address: We no longer have a Post Office Box. Please send all mail to:

1431 Mc Henry Road, Ste 216
Buffalo Grove, IL 60089

January 2019

The Post Office has advised us that they may stop giving us mail directed to the Post Office Boxes, so please update your records to reflect this change.

Referrals for Health/disability/auto/home insurance and investments: We have several clients that we can refer to help you with these items please see our web site for names and contact information. Please feel free to contact us for the name of someone that we feel would work best with you.

Taxes by mail: We have specialized in providing mail-in tax service for many years. We have the ability to prepare all state income tax returns and are able to provide our clients with our expertise and experience by email and over the phone. Please contact Tracey (at extension 100 or Tracey@ AccountantsGroup.com) for an organizer or with questions regarding what documents to send us copies of.

Tax Organizer: We have an organizer available (for existing clients) that shows last year's data and may assist you with gathering your data for the current year. If you feel this would assist you, please contact Tracey at extension 100 or Tracey@AccountantsGroup.com .

We will be in Barrington and Burr Ridge again this year. Please call our office early because appointment times at these locations seem to fill up quickly.

Referrals: Our business grows through the recommendations of satisfied clients. Assuming you are happy with our service and expertise we will appreciate you referring us to anyone that needs assistance with their accounting, taxes or finances. Should you be unhappy for any reason we will appreciate it if you would let us know.

Thank you: We appreciated the opportunity to assist you with your taxes last year and are looking forward to working with you again this year.

Sincerely,
The Accountants Group, Inc.

Jeff, Aaron, & Chuck

IRS Regulations define specific requirements that we must adhere to in order to provide advice that is to be considered federal tax advice for the purposes of avoiding penalties that the IRS might seek to impose. THIS CORRESPONDENCE (and any attachments, enclosures or other accompanying materials), IS SPECIFICALLY INTENDED TO NOT QUALIFY AS FEDERAL TAX ADVICE AND IT SHOULD NOT BE RELIED ON TO AVOID IRS PENALTIES. Specific guidance regarding our providing federal tax advice is explained in our engagement letter.