January 2021

Dear Taxpayer:

The Covid-19 shutdown dramatically affected most of our lives last year. The illness, deaths, quarantine, and financial disruption have been an awful experience for most of us to live through. We hope that 2020 was not too devastating for you and that 2021 turns out to be a healthy and prosperous year.

The law and related regulations require that we perform "due diligence" when preparing your income tax return and we are subject to very substantial penalties if we fail to do so. Therefore, we will be asking questions and requesting you fill out various forms to verify the information we enter on your return. We will also ask you to sign an Engagement Letter that certifies you have reported all of your income, have documents to prove your deductions, and have complied with certain record keeping and tax reporting requirements.

Please visit our website www.AccountantsGroup.com for our Newsletter, Directions, Engagement Letters, Vehicle Information Summary, Summary of Recordkeeping Requirements, a secure link you can use to upload documents directly to us 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.

2021 is going to present a somewhat complicated procedure for preparing income tax returns. We will not be scheduling appointments at our Burr Ridge or Barrington offices this year. While we are currently able to schedule face to face appointments in Buffalo Grove, we need to adhere to various laws concerning the wearing of masks and maintaining social distancing. Fortunately, we have a lot of experience preparing returns when the data is given to us without an in person meeting so you may want to avoid the drive to our office altogether.

Remote Tax Preparation: We have specialized in providing remote tax preparation service for many years. We can prepare all state income tax returns and are able to provide our clients with our expertise and experience without requiring a visit to our office. You can drop off or mail (USPS, UPS, FedEx, etc.) a copy of your data to our Buffalo Grove office. You can also upload the data to us using the secure link on our website. We will be happy to discuss what needs to be sent and email the secure link to you if that would be easier.

Tax Organizer: We have an organizer available (for existing clients), that shows last year's data, which may assist you with gathering your data for the current year. If you feel this would assist you, please contact our office and we will be happy to send one to you.

Unemployment: Unfortunately, many of you have probably collected unemployment benefits in 2020. We will need Form 1099G that shows the amount of unemployment that you received and any taxes that were withheld. Some states are not mailing this form and you are expected to go online and print out a copy. Please be sure to obtain a print copy of your 1099-G and keep it with your tax preparation data.

Our annual list of things to be aware of:

1. **Stimulus Payments**: There is a section of the 2020 return that allows us to reconcile the payment you received to the payment that you should have received and increase your refund (or reduce what you may owe) by any shortfall. It does not appear that you will be required to refund any overpayment you may have received with the exception of Stimulus payments that were issued to deceased taxpayers. Please be sure to bring the amount of any Stimulus payments you received in 2020.
2. **Section 529 Plans (§529)**: 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.
3. **Affordable Care Act** (ACA or Obamacare):
   - There is no penalty for not having health insurance for 2020 so we will not be asking if you are covered this year.
   - There are still subsidies available if your income is low enough, but they are 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 threshold. 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.
   - The amount of the subsidy is based on your actual income for 2020. 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 2020 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 an HSA. Please contact us if you would like assistance in making this decision.

4. **Health Savings Account (HSA) limits**: For 2020 the limits are $7,100 (2021 $8,200) for family coverage and $3,550 (2021 $4,600) for self only coverage. Individuals 55 & over can add $1,000. You cannot add anything to an HSA once you start on Medicare. You may continue to pay your medical expenses and your Medicare Supplement insurance from an HSA that was established before starting Medicare.

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

5. **Tuition credits and deductions:** We must have the form 1098T that each school issues 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 2020. This includes amounts paid using student loans as well as payments made by others (grandparents, ex-spouses, etc.).

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

   Please be sure to include any Form 1099Q's that are issued from all §529 plans you may own.

6. **The standard mileage rate** for the business use of your automobile for 2020 is 57.5¢ per mile. The 2021 rate was not established when this letter was written.

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

7. **Traditional IRA:** For 2020 you can contribute to a Traditional IRA no matter what your age, the previous rule was you could not add to an IRA after you turned 70 1/2. The only requirement is that the contribution is limited to the lessor of your earned income or the maximum amount shown below. Your spouse can contribute even if they are not employed if total earned income is enough to cover both contributions.
8. 2020/2021 employee retirement plan contribution limits have changed.:

	To Age 49	50 & Over
IRAs (Roth & Trad)		
2020	$ 6,000	$ 7,000
2021	$ 6,000	$ 7,000
401(k) & 403(b)		
2020	$ 19,500	$ 26,000
2021	$ 19,500	$ 26,000
SIMPLE IRA		
2020	$ 13,500	$ 16,500
2021	$ 13,000	$ 16,000

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

If your 2020 filing status is...	And your modified AGI is...	Then you can contribute...
married filing jointly or qualifying widow(er)	< $196,000	up to the limit
	$196,000 but < $206,000	a reduced amount
	$206,000	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	< $124,000	up to the limit
	$124,000 but < $139,000	a reduced amount
	$139,000	zero

10. **Charitable Contributions**: Beginning in 2020, if you do not itemize your deductions, you can deduct Charitable contributions of $300.00, this deduction is per tax return, not taxpayer.

    For contributions up to $250, you must have proof of payment (cancelled check, receipt, credit card charge slip, etc.), estimates are not allowed. 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 when you have a profit and 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/DonationValue Guide) and Goodwill Industries (https://www.goodwill.org/wp-content/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 must 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 the 2% Miscellaneous Itemized deductions and new limits on Mortgage interest it is possible your charitable contributions will not be deductible.

One way to take advantage of a charitable deduction is to bunch the deduction into one year by using a Donor Advised fund to make a multi-year contribution and disburse the money from the fund over the next several years. An excellent way to fund this is to use appreciated securities that you have owned for at least one year. You get a deduction for the fair market value of the contribution and do not have to pick up the capital gain as income.

Another option for Taxpayers at least 70 years old is to use their IRA's to make charitable contributions. This is limited to a maximum of $100,000.00 per year and the contribution counts towards your Required Minimum Distribution. Additional benefits of using this method is the income does not appear on your tax return so it may reduce the taxable amount of your Social Security benefit and it could reduce you Medicare premium.

We will discuss these options with you when we prepare your taxes or please call if you would like to plan this deduction for 2021.

11. **Home office**: Home office as well as all unreimbursed employee business expenses are no longer deductible unless you are self-employed. Assuming you are eligible for a home office deduction, the deduction is only available if the area of your residence is used regularly and exclusively for business, you should maintain a log that shows the date, hours worked, and what you were doing to prove this deduction.

12. **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 for each year you don't file the form(s). In some cases, the penalty can be 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 may 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 15th. 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.

13. **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.

14. **Audits:** The IRSs 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 provide the response and typically do not charge for this service).

15. **Mortgage Interest**: This has gotten very complicated.

    For mortgages taken out after 2017 The deduction is limited to initial mortgage balances not exceeding $750,000 that were used to purchase or substantially improve up to two residences. This is further complicated by the fact that the mortgage must be secured by the property the money was spent on. This can include home equity loans but again, the money must be used to purchase or improve a residence and the loan must be secured by the property.

    For example, 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.

    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.

16. Illinois (and many other states) 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 maximum deduction of $20,000).

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

Please supply us with the year-end statement from your Illinois §529 plan. This document will contain the account number that is now a part of your Illinois filing requirement.

17. **Gambling Winnings**: The IRS has taken the position that gambling losses can only offset gambling winnings. 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 casinos 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.

18. **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 (and other law enforcement agencies) are a scam. We continue to have clients contact us about phone calls and/or email they receive from persons that identify themselves as IRS agents or law enforcement officers and threaten the taxpayer with jail, seizing bank accounts and other bad things unless they pay the money they owe right away or transfer funds to new accounts. 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 really 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

19. **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 that must be included with their tax filing if they are filing electronically. The IRS issues a new number each year. Please watch for correspondence from the IRS and be sure to provide us with your current PIN.

20. **Head of Household filing status, Earned Income Credit, American Opportunity Credit and Child Tax Credit:** To prevent the abuse of these items 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, daycare records, a statement from your landlord, etc.) so please provide 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.

21. **Cancellation of Deb**t: 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 2020. 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.

22. **Private Mortgage Insurance**: is deductible again.

23. **Medical Expenses**: The deductible for Medical expenses is 7.5% for 2020 and future years.

24. **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.

25. **Estate & Gift Taxes**: The exclusion from Gift and Estate taxes is, per taxpayer $11,700,000, for 2021 and $11,580,000 for 2020. 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 your house and life insurance, is close to $4.0M please discuss how to avoid Illinois estate taxes with us.

    The annual Gift Tax exclusion is $15,000 for 2020 & 2021.

    We provide Estate planning and prepare Trust, 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.

26. **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.

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.

27. **Social Security wage base** for 2021 is $142,800 versus $137,700 for 2020.

28. **Divorced taxpayers**: For those of you that are paying or receiving alimony, we need the date of your original divorce or the latest revision.

    If you were divorced in 2020 or had the agreement modified we will need to see a copy of the Divorce and Settlement agreement.

29. **Cryptocurrency** (Bitcoin, etc.): There is a question on your tax return asking if you have any cryptocurrency transactions during the year. Please be prepared to provide the details of any of these transactions that occurred during the year.

30. **Penalties:** Penalties and Interest are now considered a budget item and the IRS uses them to generate additional revenue. The computation of penalties is fairly complicated, so we are only providing a brief explanation. Filing a return late, 5% per month with a maximum of 25%. Paying taxes late (even if the return is extended) 0.5% per month with a maximum of 25%, Negligence or substantial understatement of tax 20%, and of course interest from the due date of the tax return until the tax, penalties and interest is paid in full.

31. **Income Tax Refunds**: IRS's goal is to issue 2020 refunds for electronically filed returns within 21 days of when the return is filed. Should you be required to file a paper return or if they pull your return out of the system it could take months to get your money. The IRS has initiated security procedures they use during the processing of returns (and are continually fine-tuning them) to prevent the acceptance of fraudulently filed income tax returns. These procedures slow the process of issuing some refunds. Should 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 some large refunds (over $1,000) until they have the money to pay them.

You can avoid issues with this by adjusting your withholding tax 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 send 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.

Referrals for health/disability/auto/home insurance, investments & preparation of wills/trusts: We have several clients that we can refer to help you with these items. Please feel free to contact us for the name of someone that we feel would work best with you.

Referrals: Please help us grow our business. 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.