

Dear Taxpayer:

Covid, Inflation, Ukraine War, Stock Market Crash, ??? Let's not ask what else can happen. We hope that none of these things have affected you or your family.

We like to maintain contact with our clients by sending emails and letters to advise about things that may affect them. Please make sure we have your current email and mailing address.

You can 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 no longer have satellite offices. Please call to schedule an in person or virtual appointment at our Buffalo Grove office or take advantage of our remote tax preparation.

We have added to our tax preparation staff this year and it is possible you will be contacted by Kyle Arbet with questions and observations he may have when he prepares your return.

Remote Tax Preparation: You can save the trouble of making an appointment and having to travel to our office by taking advantage of our remote preparation service. We can prepare federal and 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 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, please feel free to call.

Tax Organizer: We have an organizer available (for existing clients) that shows last year's data. Please call or email Tracey@AccountantsGroup.com if you would like an organizer. Please note, we have had complaints that the Organizer was too complicated. We are comfortable using lists of your income and expenses, instead of the organizer. Additionally we will need a copy of all of your W-2's, 1099's and K-1's to complete your return.

Due Diligence: 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 your income, have documents to prove your deductions, and have complied with record keeping and income reporting requirements. While we may ask questions about your data we are not auditing or verifying anything so it is possible the IRS may have a different opinion about whether something is properly documented or otherwise deductible.

1. **Section 529 Plans (§529):** Tax legislation allows for §529 plans to be used to pay for K - 12 school expenses but it requires the state plan 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.

Illinois allows a deduction 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). Most other states have similar deductions available.

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 for the original contributions to the other plan.

We will need a copy of the year-end statement from the Illinois §529 plans you contribute to in order to properly document the deduction with the state.

We also need Form 1098Q if you took any money out of any §529 plan and Form 1098T from the school for the person that the money was used for.

2. **Affordable Care Act (ACA or Obamacare):**

- There is no penalty for not having health insurance.
- 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 2022. 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 2022 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.

3. **Health Savings Account (HSA) limits:** For 2022 the limits are \$7,300 (2023 \$7,750) for family coverage and \$3,650 (2023 \$3,850) for self only coverage. Individuals 55 & over can add \$1,000. You only get one extra \$1,000 if you have family coverage so you should consider one family (if you have kids) and one self only if you and your spouse are over 55. You cannot add anything to an HSA once you start on Medicare. You may continue to pay your medical expenses and your Medicare insurance from an HSA (but not your Medicare Supplement).

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

4. **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 2022. This includes amounts paid using student loans as well as payments made by others (grandparents, ex-spouses, etc.).

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

5. **The standard mileage rate** for the business use of your automobile for 2022 is 58.5¢ per mile until 7/1/22 then changes to 62.5¢ per mile. The rate for 2023 had not been announced when this letter was composed.

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

6. **Traditional IRA:** For 2022 you can contribute to a Traditional IRA no matter what your age. The only requirement is that the contribution is limited to the lesser 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.

7. **2022/2023 employee retirement plan contribution limits:**

	To Age 49	50 and Over
IRAs (Roth & Trad)		
2022	\$ 6,000	\$ 7,000
2023	\$ 6,500	\$ 7,500
401(k) & 403(b)		
2022	\$ 20,500	\$ 27,000
2023	\$ 22,500	\$ 30,000
SIMPLE IRA		
2022	\$ 14,000	\$ 17,000
2023	\$ 15,500	\$ 19,000

8. **Student Loan Forgiveness:** this was still in the courts when this letter was prepared. Should they allow the forgiveness of student loans this will not be taxable income for the IRS and you will not receive any documentation regarding the forgiveness. Illinois does not tax this income but Indiana and several other states do. If you don't live in Illinois, please advise us of the amount of any student loans that were forgiven so we may determine if you have additional taxable income.
9. **Electric Vehicle Credit:** This changed significantly on August 16, 2022, they have removed the number of vehicle limit so the credit may be available for GM, Toyota and Tesla but they have added new restrictions based on your income, the cost of the vehicle and where it was manufactured. These are

rather complicated rules so we will not enumerate them here. If you are thinking of purchasing an electric vehicle please contact us so we can explain the options.

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

If your 2022 filing status is...	And your modified AGI is...	Then you can contribute...
married filing jointly or qualifying widow(er)	<\$218,000	up to the <u>limit</u>
	\$218,000 but <\$228,000	a reduced amount
	>\$228,000+	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	<\$129,000	up to the <u>limit</u>
	\$129,000 but <\$144,000	a reduced amount
	\$144,000+	zero

11. **Inherited IRA's:** If you inherited an IRA, beginning in 2023, you are required to continue to take Required Minimum Deductions (RMD) at the same rate as the person you inherited the IRA from, and you are required to close the IRA by the tenth anniversary of that person's death. The Rule for RMD's if the decedent had not started RMD's is you compute the RMD based on your life expectancy and have to have all of the money out by the tenth anniversary of the decedent's date of death. In both instances the first distribution is due

the year following the date of death and the RMD's are the minimum distribution, more can be withdrawn if desired.

12. **Charitable Contributions:** 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" need an appraisal (for example, three bags of designer clothes valued at \$2,000 each and given to different charities would count as more than \$5,000).

Publicly traded securities do not require an appraisal, but you must prove the value on the date of the contribution, we will also need the date the stock was acquired and the cost. You should only donate securities that have a long-term capital gain. 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 ([Valuation Guide for Goodwill Donors \(goodwillswpa.org\)](http://goodwillswpa.org)) 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 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 70½ 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 are 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 2023.

13. **Home office:** Even though you may be working from home, home office as well as all unreimbursed employee business expenses are not 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 are required to maintain a log that shows the date, hours worked, and what you were doing to prove this deduction.
14. **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. FinCEN114, if you have amounts in Foreign Financial Accounts that exceed \$10,000 in total. Form 8938 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.

Foreign stocks, bonds, etc. that are held by a U.S. Financial institution (U.S. stockbrokers, etc.), United States based retirement plans or mutual funds are exempt from filing these forms.

You need to file 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.

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.

15. **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.

16. **Audits:** The IRSs computer system is comparing information returns (Forms: W-2, 1095A, 1098, 1099, 1098-T, 1099-K, 1065 & 1120S K-1, 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).

17. **Mortgage Interest:** This has gotten 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 and the mortgage must be secured by the property acquired or remodeled. This can include home equity loans, but the money must be used to purchase or improve the 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.

18. **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 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.

19. **Scams:** The IRS does not have your cell phone number or email address and will never contact your cell phone or email. Taxpayers have been getting emails and/or texts 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. 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>

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 that must be included with their tax filing. 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.

21. 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.

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 2022. Should 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. Should you get a form 1099C you must send it to us to be included in your tax return.

23. Medical Expenses: The deductible for medical expenses is 7.5% of your adjusted gross income.

24. Form 1099K: The American Rescue Plan Act of 2021 requires credit card companies and third-party payors (PayPal, Zelle, Venmo etc.) to send form 1099K to individuals that receive more than \$600 during the year. The information on this form needs to be reflected on your income tax return so please be sure to give us a copy.

25.Hobbies: Do you operate a home-based business such as selling in EBay, Shopify, 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 [Earning side income: Is it a hobby or a business? | Internal Revenue Service \(irs.gov\)](https://www.irs.gov/efile/earningsideincome) for a discussion of this issue.

26.Estate & Gift Taxes: The exclusion from Gift and Estate taxes is, per taxpayer \$12,920,000 for 2023 and \$12,060,000 for 2022. This exclusion is now transferrable to a surviving spouse. Please contact us if your spouse died so we may advise you if you should 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 \$17,000 for 2023 and \$16,000 for 2022.

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.

27.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 your Social Security payment, a personal account or you inadvertently pay it with a personal check or credit card 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.

28. Social Security wage base for 2023 is \$160,200 versus \$147,000 for 2022.

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

If you were divorced or had your agreement modified in 2022 we will need to see a copy of the Divorce and Settlement agreement and all amendments.

30. Capital Gains: Long term (held more than one year) capital gains are not taxed at a flat 20%. The tax on collectibles and digital assets is 28%. The rate is 0% for single taxpayers with taxable income up to \$41,675 and married taxpayers with taxable income up to \$83,350. The rate is 15% for singles between \$40,675 and \$459,750 and married filing joint between \$83,351 and \$517,200. The 20% rate kicks in after these limits.

31. Additional Medicare Tax: There is an additional Medicare Tax of 0.9% if your combined wages & self-employment income exceeds \$250,000 for Married filing jointly, \$125,000 for Married filing separately and \$200,000 for all other filing categories.

There is also an additional Medicare Tax of 3.8% on Investment income (including capital gains) if your adjusted gross income exceeds \$250,000 for Married filing jointly, \$125,000 for Married filing separately and \$200,000 for all other filing categories.

32. Digital Assets (Non-fungible Tokens (NFT), Cryptocurrencies, etc.): Every time you receive (not buy), sell or use cryptocurrency to buy something you have a taxable event that is supposed to be reported on your tax return.

There is a question on your tax return asking if you have any digital assets transactions during the year. Please be prepared to provide the details of any of these transactions that occurred during the year. Please contact us if you have been trading digital assets and have a lot of transactions. Some of the company's that clear these trades do not provide user friendly summaries of

the transactions and we can recommend a program that will assist you in recapping the transactions.

33. Penalties: Penalties and Interest are considered a budget item and the IRS uses them to generate additional revenue. The computation of penalties is 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.

34. Income Tax Refunds: IRS's goal is to issue 2022 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 (6 - 18) 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).

35. Dependents Returns: If you have dependents on your tax return and they are filing their own tax return be sure they check the box that indicates they will be claimed as a dependent by someone else. If they don't check this box your refund may be delayed and their return will have to be amended.

36. Cut off dates: Please be advised that we may not be able to complete returns received after March 1st by the April 18th due date. Should this occur we will automatically extend your return and finish it as soon as possible after April 15th. Remember, you will be charged interest and a late payment penalty for any taxes you owe with the return if it is filed after 4/18. We can estimate your taxes and have you pay the appropriate taxes but will need time to do the estimate. If you have additional income in 2022 please send your data to us early (even if you do not have all of the forms) and let us know you expect to owe.

January 2023

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, and investments: 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.

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.