

Dear Taxpayer:

We hope you had an enjoyable holiday season and are looking forward to an exciting 2026. We look forward to working with you again this year.

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

You can visit our website AccountantsGroup.com for our Newsletter, Directions to our office, 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.

Standard Questions: If you would like to get a head start on preparing your taxes please go to our website and fill out the Standard Questions form and return it to us with your income tax data. An electronic engagement letter will be sent upon receipt of your data.

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 may also upload the data to us using the secure link on our website. We will be happy to discuss what needs to be sent. We can 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 our office 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 also need a copy of all your W-2's, 1095A, 1099's, 1098'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 as well as some other things. 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):** The "One Big Beautiful Bill Act" (OBBA) significantly enhances 529 plans, effective in 2026, by doubling the annual K-12 withdrawal limit to \$20,000, expanding qualified expenses to include tutoring, books, online learning, test fees, and therapies, and allowing funds for apprenticeships, trade schools, and credentialing programs, making 529s more versatile for diverse educational and career paths. 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. Illinois plans do not allow for this.

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 so please advise us if you have contributed to your states §529 plan.

Something to consider, if you have a child in college or a technical school but have not funded 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 (but not the earnings) to the other plan.

We will need a copy of the year-end statement from the Illinois §529 plan(s) you contribute to properly document the deduction with the state.

We also need Form 1099Q 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. **§529 plan conversion to a Roth IRA:** Beginning in 2024 the beneficiary of a §529 plan will be able to convert the §529 to a Roth IRA subject to the following rules:
 - The §529 must be open for at least 15 years & have the same beneficiary for the entire period.
 - The beneficiary of the §529 and the owner of the Roth IRA must be the same person.

- The maximum amount converted each year is the maximum contribution allowed to a Roth IRA however, the transfer cannot exceed the earned income (wages, self-employment income etc.) of the beneficiary.
 - You cannot transfer contributions made in the last five years or the income from those contributions.
 - The lifetime limit on the conversion is \$35,000 per beneficiary.
 - There are no maximum income limits for the conversion.
 - The transfer must be made "Plan to Plan", you cannot take the money out of the §529 and then deposit it in a Roth.
3. **Timing §529 withdrawals:** The withdrawal from a §529 plan must coincide with the payment of tuition shown on form 1098T. Schools will put the tuition on the 1098T for the year the tuition is due, not the year that you actually pay it. The problem is you take a distribution in December to pay the tuition that is due in January and you end up with a taxable distribution from the §529.
4. **IRA Required Minimum Distribution (RMD) rules:** For taxpayers born before January 1, 1960, the first year RMD is the year they turn 73, for taxpayers born after December 31, 1959, it's the year they turn 75. You are allowed to take your first distribution by the April 15th following the year you turn 73 but, if you do this you have to take two distributions that year.
5. **Student Loan forgiveness:** The recent tax bill ended the federal tax exemption for most student loan forgiveness after December 31, 2025, making discharged debt taxable as income starting in 2026, except for specific cases like death, disability, or Public Service Loan Forgiveness (PSLF).
6. **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 Form 1095A on your income tax return.
 - The amount of the subsidy is based on your actual income for 2024. 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 2024 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 your dependent or that is covered by your health insurance. We will advise you what is needed when we prepare your tax return.

7. **Health Savings Account (HSA) limits:** For 2026 the limits are \$8,750 (2025 \$8,550 for family coverage) and \$4,400 (2025 \$4,300) for self only coverage. Individuals 55 & over can contribute an additional \$1,000. You only get one extra \$1,000 if you have family coverage so you should consider one family plan (if you have kids) and one, self only plan or two self only plans, 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 Part B, D or C premiums 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.

8. **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 the student) 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 2025. 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.

9. **The standard mileage rate** for the business use of your automobile for 2025 is 70.0¢ per mile. The rate for 2026 is 72.5¢ per mile.

Auto use as well as all other unreimbursed employee business expenses are only deductible if you are self-employed (not a W-2 employee).

10. **Traditional IRA:** There are no longer age limits to contribute to a traditional IRA. 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.

11. 2025/2026 employee retirement plan contribution limits:

	To Age 49	50 and Over
IRAs (Roth & Trad)		
2025	\$ 7,000	\$ 8,000
2026	\$ 7,500	\$ 8,600
401(k) & 403(b)		
2025	\$ 23,500	\$ 31,000
2026	\$ 24,000	\$ 32,500
SIMPLE IRA		
2025	\$ 16,500	\$ 20,000
2026	\$ 17,000	\$ 21,000

The 2026 catchup contribution for SIMPLE IRA's for taxpayers age 60 - 63 is an additional \$5,250 (total \$26,250).

The 2026 catchup contribution for 401(k) and 403(b) for taxpayers age 60 - 63 is an additional \$11,250 (total \$35,750).

Beginning in 2026 the catch up 401 (k) contributions for taxpayers whose income exceeds \$150,000 must go into a Roth 401(k).

- 12. Residential The Residential Clean Energy Credit for 2025 offers a 30% tax credit for installing qualifying clean energy property.** Solar panels, wind turbines, and battery storage, with no annual or lifetime cap (except for fuel cells) for installations through December 31, 2025, and you claim it on your 2026 tax return for 2025 expenses; this credit then terminates, with a separate Energy Efficient Home Improvement Credit available for efficiency upgrades until 2025 as well.

- Key Details for 2025
- Credit Amount: 30% of the cost of eligible new clean energy equipment.
- Eligible Property: Solar electric, solar water heating, fuel cells, small wind energy, geothermal heat pumps, and battery storage.
- Deadline: The property must be installed and in service by December 31, 2025, to qualify.

- **Claiming the Credit:** File Form 5695 with your 2025 tax return (filed in 2026).
- **Nonrefundable:** The credit can reduce your tax bill to zero, but you can carry forward any unused credit to future years.
- **Residential Clean Energy Credit (30%):** For major clean energy generation systems (solar, wind, etc.).
- **Energy Efficient Home Improvement Credit (30%):** For efficiency upgrades (windows, doors, insulation, heat pumps, biomass stoves) with separate limits (up to \$1,200 annually, plus \$2,000 for heat pumps/biomass).

13. Electric Vehicle Credit: Is now limited by the source of the vehicle, the battery & the battery components. The only way to determine if you are eligible for a credit is to use the following link and enter your car information: fuelconomy.gov and enter information about the vehicle you purchased and see what, if any, credit you are eligible for.

If you live in certain areas, you may qualify for the cost of installing a home electric vehicle charger. You may check your status here: [IRS Publication 6027](#)

When you purchase an electric vehicle, the dealer can log onto the IRS website, submit a time-of-sale report and the IRS will accept or reject the credit immediately. Assuming they accept the credit, you can assign it to the dealer and use it as part of the downpayment. You should get a copy of the report because we will still have to fill out a form with your tax return whether or not you assign the credit.

Lessors qualify for similar credits but as a commercial vehicle (all leased vehicles are classified as commercial vehicles) that are not subject to the same constraints as personal vehicles so you may be able to qualify for a credit by leasing a vehicle and having the lessor pass through the credit to you.

The federal EV tax credit ended after September 30, 2025

14. Roth IRA: You may make contributions to a Roth IRA if you have earned income and your Adjusted Gross Income (AGI) is within the following parameters:

If your 2025 filing status is...	And your modified AGI is...	Then you may contribute...
	<\$236,000	up to the limit

married filing jointly or qualifying widow(er)	>\$236,000 <\$246,000	a reduced amount
	>\$246,000+	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	<\$150,000	up to the limit
	>\$150,000 <\$165,000	a reduced amount
	>\$165,000+	zero

- 15. Distributions from Inherited IRA's:** If the person you inherited the IRA from was taking Required Minimum Deductions (RMD's) you are required to continue to take the RMD at the same rate as the decedent, and you are required to close the IRA by the tenth anniversary of that person's death. If the decedent had not started RMD's, you compute the RMD based on your life expectancy and must have all the money out by the tenth anniversary of the decedent's date of death. In both instances the first distribution you must take is due by the end of the year following the date of death.

You may be required to take the decedents RMD if this has not already been done for the year they died.

You may, of course, take more than the RMD.

- 16. 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 contain 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. However, you must prove the value on the date of the contribution, we will also need the date the stock was acquired and the cost. The contribution amount for securities that you have held for more than one year is the fair market value on the date transferred to the charity. You should not donate securities that have a loss or that you have held for less 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 ([Salvation Army Donation Value Guide](#)) and Goodwill Industries ([Tax Valuation Guide - Goodwill](#)) 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, tolls, 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, keep receipts for all expenses and a log of your automobile use. See [IRS Publication 526](#) for additional information.

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.

For 2026, charitable giving limits introduce a new 0.5% Adjusted Gross Income (AGI) floor for itemizers, meaning only gifts exceeding this amount are deductible, while non-itemizers get a new deduction for cash gifts up to \$1,000 (single) or \$2,000 (joint). Key changes include the permanent 60% AGI limit for cash gifts

(up from 50%) and a new 35% deduction cap for high-income itemizers, alongside potential 2/37ths reductions for high earners.

Another option for Taxpayers at least 70½ years old is to use their IRAs to make charitable contributions. This is limited to a maximum of \$105,000 per year (\$111,000 for 2026) and the contribution counts towards your Required Minimum Distribution. The benefit 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 your Medicare premium.

17. The new tax law allows temporary deductions for certain tips (up to \$25k) and FLSA overtime pay (the "half" portion, up to \$12.5k single/\$25k joint) for tax years 2025-2028, reducing taxable income but not payroll taxes, with income phase-outs starting at \$150k MAGI (\$300k joint). These deductions require a Social Security Number and reporting to the IRS, applying to specific tipped occupations and FLSA overtime, with employers reporting figures on W-2s/1099s, though 2025 transition rules allow some estimation.
18. For tax years 2025-2028, a new federal deduction allows up to \$10,000 in annual interest paid on a loan for a new, U.S.-assembled vehicle for personal use. Key rules: the loan must start after Dec. 31, 2024, the vehicle must be new, have a GVWR under 14,000 lbs, have final assembly in the U.S., and the deduction phases out for higher incomes (starting at \$100k MAGI for singles, \$200k for joint filers).
19. **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.
20. **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. FinCEN 114, 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.

21. **Records:** Detailed instructions regarding record keeping are available from the IRS. Look for: Publication 334, Tax Guide for Small Business, Publication 463, Travel, Gift, and Car Expenses; Guide to business expense resources; Publication 552, Record Keeping, Individuals. We have also published a limited explanation of what records you need to keep on our web site 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.

22. **Audits:** You have undoubtedly heard the IRS has received additional funding and is hiring additional agents and upgrading their computer systems. The IRS's 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).

With the new administration coming to power, it is possible the IRS funding will be cut. We will monitor this and keep you advised.

23. **Mortgage Interest:** This has gotten complicated.

For 2026, the mortgage interest deduction generally remains capped at interest on the first \$750,000 of acquisition debt, though older mortgages (pre-2017) can use a \$1 million limit; key changes from the new tax bill make the \$750k limit permanent, treat Private Mortgage Insurance (PMI) as deductible mortgage interest, and increase the standard deduction, impacting who benefits from

itemizing. You must itemize deductions to claim it, and the loan must be secured by your main home or a second home and used for buying, building, or substantially improving it.

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.

24. **Gambling Winnings:** For 2025 gambling losses, the old rules generally apply (deduct up to winnings), but new 2026 tax law changes will limit deductions to 90% of losses, creating "phantom income" even if you break even, affecting tax prep for the 2026 filing year.

You still need meticulous records (receipts, logs) to claim any losses. There are bipartisan efforts and bills (like the Fair Bet Act) already introduced to try and repeal or modify this unpopular 90% cap before it fully takes effect. 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.

The IRS offers additional information: [Topic 419, Gambling income and losses.](#)

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

25. **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 [Publication 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 [tax-scams-consumer-alerts](#)

26. **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.

You may apply for a PIN with the IRS [get-an-identity-protection-pin](#) if you would like to make sure no one can file a return using your social security number.

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.

27. **IRS Account:** You can go to [online-account-for-individuals](#) and set up an account with the IRS. This account can be used to check payments you have made, make payments, obtain transcripts of previous years filings, & recover your PIN. Setting this up is a bit of work but once it's done you have instant access to your data. If you set up an account please notify us so we can send you a request to link to it.

28. **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. For this reason, we will ask additional questions, and have you sign a form that certifies that you qualify for the filing status or credit.

29. For the 2025 tax year, seniors age 65+ can claim a new, temporary **\$6,000 senior deduction** (or \$12,000 for couples) in addition to standard deductions, phasing out at higher incomes (e.g., \$75k single, \$150k joint MAGI), and available whether itemizing or not, requiring Social Security Numbers for eligibility. This is separate from the existing extra standard deduction (\$2,000 single, \$1,600 per person married) also available for seniors.

30. **Cancellation of Debt:** You 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 2025. 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.

31. Medical Expenses: You may be entitled to a deduction for all your medical expenses that exceed 7.5% of your adjusted gross income.

32. 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. The \$600 limit has been increased to \$5,000 for 2024, the limit for 2025 will be \$2,500 and for 2026 & following years it will be \$600. It is possible you will get a form based on the \$600 limit, please be sure to send us any form 1099K's that you receive.

33. Hobbies: Do you operate a home-based business such as selling on 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 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 profitable 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? for a discussion of this issue.

34. Educator K-12 Instructional Materials & Supplies: The Illinois Credit for educators who provide instructional materials and supplies to their students is \$500. The IRS continues to give a \$300 deduction for these expenses.

35. Estate & Gift Taxes: The exclusion from Gift and Estate taxes is, per taxpayer is \$15,000,000. This exclusion is transferable 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 transferable. 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 \$19,000 for 2025 and 2026.

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.

36. **Health Insurance Expense:** If you are the owner of a company or a sole proprietorship business, it is important that the business pays 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.

37. **Social Security wage base** for 2026 is \$184,500 versus \$176,100 for 2025.

38. **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 2025, we will need to see a copy of the Divorce and Settlement agreement and all amendments.

39. **Capital Gains:** Long-term (held more than one year) capital gains are not taxed at a flat 20%. The rate is 0% for single taxpayers with taxable income up to \$48,430 and married taxpayers with taxable income up to \$96,700. The rate is 15% for singles between \$48,351 and \$533,400 and married filing joint between \$96,701 and \$600,050. The 20% rate kicks in after these limits. The tax on collectibles and digital assets is 28%.

40. **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.

41. **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 companies 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.

42. **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. The penalty for filing a tax return after the due date (or extended due date) is 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 original due date of the tax return until the tax, penalties and interest are paid in full.

43. **Income Tax Refunds:** For 2025 tax returns (filed in 2026), the IRS is phasing out paper tax refund checks, with the transition starting September 30, 2025, meaning **most taxpayers must use** direct depositor other electronic methods like digital wallets or prepaid cards to receive refunds quickly.

Should you be required to file a return paper, 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).

44. **Dependent Returns:** If your dependents are filing their own income 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.

45. Cut off dates: Please be advised that we may not be able to complete returns received after March 1st 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. Remember, you will be charged interest and a late payment penalty for any taxes you owe with the return if it is filed after 4/15. 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 2025, 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.

46. Beneficiary designations: When was the last time you reviewed your beneficiaries on your IRA's or company retirement plans, updated your will and/or Trust documents? You should look at these documents and make sure they are current.

We recommend you make an 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.

Please let us know if you have any issues with what we do for you. We try to be responsive to all client issues and invite you to share problems with us.

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.