

Dear Client,

This year our newsletter is designed to give you guidance to gather the information we need to prepare your 2020 individual income tax return. We will once again ask you to sign the annual tax return engagement letter. Additionally, we do expect mail-ins, drop-offs and virtual appointments may be necessary again.

Stimulus Check

Many of you received a “Stimulus Check” this year during the summer. In many instances the check will be less than what you qualify for. In order to determine if you should receive an additional amount, please let us know the amount you received. You should have received Notice 1444 from the IRS which, if you received it, we need to reconcile the amount you received to the amount you qualify for.

Deductions

We still may need to accumulate the information on your 1) medical expenses, 2) state income and property tax, 3) mortgage interest, 4) charity and other deductions in order to apply the latest rules, and to complete your state tax returns. Unique to 2020, individuals who do not itemize their deductions can take an above-the-line charitable deduction of up to \$300. Such contributions must be made in cash/check and made to qualified organizations. Non-cash donations do not qualify for this new deduction.

Employee work related business expenses are no longer deductible on the Federal return, but we may still need the information for your state return. If you incur a lot of these types of expenses, you need to discuss the use of an accountable plan with your employer. With many folks working from home this year we recommend you check to see if your employer has an accountable plan to reimburse you, tax-free, for the business use of your home.

Retirement accounts

You can take up to \$100,000 in coronavirus-related distributions from retirement plans through the end of the year without being subject to the 10% additional tax for early distributions. Additionally, required minimum distributions (RMDs) are temporarily suspended for 2020. If your retirement assets have taken a hit, not having to take an RMD may allow those assets to recover some value before you resume taking distributions.

Fraudulent activity remains a significant threat

Our firm takes security seriously and we think you should as well. Fraudsters continue to refine their techniques and tax identity theft remains a significant concern. Beware if you:

- Receive a notice or letter from the Internal Revenue Service (IRS) regarding a tax return, tax bill or income that doesn't apply to you
- Get an unsolicited email or another form of communication asking for your bank account number or other financial details or personal information
- Receive a robocall insisting you must call back and settle your tax bill

Make sure you're taking steps to keep your personal financial information safe. Let us know if you have questions or concerns about how to go about this.

Compliance

The IRS has added a new question on the very first line of the 2020 Form 1040 asking whether you have bought, sold, traded or spent any virtual currency and we must ask you to verify this for us to avoid IRS penalties. Bitcoin is one example of a virtual currency you may have encountered.

Finally, in order to prepare your return this year **we are required** to obtain all of your W-2's, 1099's from retirement, interest, dividends and brokers, Forms 1095 for health insurance, bank Forms 1098 and any other official IRS documents.

Planning

1. In the current tax era of greatly increased requirements to itemize deductions, a tax "bunching" strategy may be recommended. The "bunching strategy" recognizes that the best tax deductions are obtained by putting deductions in one year rather than spreading them amongst several years. For example, in years where your charitable contributions are very low, hold off until the next year to catch up, then also pay the full amount of the next year's contributions in the "catch up" year in order to double your chances of itemizing. Similarly, few Americans receive medical deductions anymore, but if you incur a large expense for say, the deductible on surgery, then try to do all of your other medical items in the same year, such as dental and vision exams, check-ups, etc.
2. If you have a Health Savings Account, it is also mandatory that you deposit some amount into it and leave a minimal balance at all times. The tax savings benefits are incredible, and this is one of the single best plans available.
3. Every year we are told "I pay too much in taxes" or "I want some of the tax loopholes that rich people get". We can answer both statements with one answer. Rich people get no more tax deductions or "loopholes" than anyone else, they just take advantage of what is there to keep their taxes at a low legal level. The single greatest tax "loophole" that they use, which few average people use to its limit is the ability to defer nearly \$20,000 into a 401-K if your employer has one. If your employer has a 401-K and you are not putting the maximum deferral in it, there is no reason to even think about other tax planning ideas.

Whether it's working toward retirement or getting answers to your tax and financial questions, we're here for you. As always, planning ahead can help you minimize your tax bill and position you for greater success. We are happy to meet with you (virtually or over the phone) throughout the year for tax planning, retirement and similar income tax related issues, and we sincerely appreciate your continued business each year.

Sincerely,

GUINN, VINOPAL & ZAHRADKA, LLP