

Dear Friends and Clients,

I think we can all agree that 2020 socked! Nope, that's not a typo. Take a look at friends and family modeling their holiday gifts:



However you spent the year, it was surely less than ideal – whether working from home or not working at all; whether shopping online or making nervous dashes to the grocery store in full PPE; whether zooming with or missing loved ones – last year sucked. I lost 6 clients and friends to COVID during the spring wave; these were my super-seniors who had neither the fortitude nor revolutionary pharmaceuticals to withstand the virus: Tommy (age 97) and I often did lunch and then took in a matinee; Alice (95) and I enjoyed springtime garden tours; Sarah (97) and her sister Jeannette died only days after she told me that someone on the 3<sup>rd</sup> floor had told her that someone on the 4<sup>th</sup> floor had been taken out by ambulance; Henry (99) and Eunice (94) had invited me into their home to share a memorable family dinner. While I “inherited” daughters and sons, nieces and nephews from each of these folks, I nevertheless lament the loss of friends with whom I walked down memory lane, learned of their tragedies and triumphs, and shared quiet moments on the phone, in their homes, or on a stroll through the Will Rogers State Park, after a discussion of the Japanese American experience during WWII, or while exchanging a recipe for a traditional Passover dish.

By fall, my list grew considerably longer, younger, and less deadly but no less tragic. My gardener reported that his Florida in-laws had passed the virus amongst several households. Similarly, a cousin in Colorado picked it up at work and brought it home to share with his wife and her parents. Clients called to report that while still healthy, their businesses suffered. Layoffs and furloughs led to unemployment – they wondered if their benefits would be taxable [federally yes, but not state]. Could expenses paid with PPP loans proceeds that would be forgiven be deducted? [Yes.] Were annual minimum retirement account distributions required in 2020? [No.] The questions were a sign of the times and the economic suffering that was spreading. FYI: These and many more questions have been addressed in my [blog](#) and on the [FAQ](#) page of my website.

This winter, Dieter and his wife Marianne died only hours apart. Keith didn't make it. Nor did Ernesto. I'll miss him at next year's holiday potluck; it seems that he and I always shared dishwashing duty after the festivities. All dear friends who left behind grieving family members and memories of better (healthier) times. On a personal note, I lost both parents in 2020. Unable to visit Mom in the nursing home in Oregon that had been (and still is) under perpetual lock-down, I moved mountains to see Dad in Austria before he passed a few months later. My loss is of course no greater than that of others. I mention it only to say, “I understand and I empathize” and to reiterate that 2020 socked!

Apparently our legislators agreed and by hook and crook passed various relief bills throughout the year, including the Setting Every Community Up for Retirement Enhancement (SECURE) Act making wide ranging changes to retirement account rules (enacted December 19<sup>th</sup>, 2019); the Families First Coronavirus Response Act providing paid family leave and increased funding for food stamps (March 18<sup>th</sup>, 2020); the Coronavirus Aid, Relief and Economic Security (CARES) Act providing stimulus payments and paycheck protections (March 27<sup>th</sup>); and the Consolidated Appropriations Act (CAA) which provided for a 2<sup>nd</sup> round of stimulus payments and enhanced unemployment benefits (December 27<sup>th</sup>). As in all years, it is my job to pick and choose the most salient provisions and distill them for you in plain-speak.

I have once again published a *Summary of Pertinent Code Changes* as well as my copyrighted *Summary of Important Tax Data*, which are included in my **Client Packet** available on the [Home](#) page of my website. Just click on the top-most manila folder in the right-hand sidebar to download everything that you'll need for the upcoming tax season, including my *Personal Tax Organizer* as well as a list of *Documents Needed for Tax Preparation*, *Office Policies*, and various forms that you'll have to sign to jump-start the tax preparation process.

Please sign and return the **Engagement Agreement** and **Taxpayer Consent** forms along with a check or [online payment](#) to cover the mandatory **Advance Payment** (\$425) that will be applied against your invoice when services have been rendered.

**NOTE:** The format of the Taxpayer Consent form is dictated by the US Department of Treasury and is intended to cover all eventualities. I ask that you sign the form to give me permission to calculate your estimated tax payments [which I may otherwise not do] and to use your mail and e-mail addresses [yes, those are considered “taxpayer information”] when I distribute my newsletters, web-blasts, articles or seminar announcements. I promise not to share your information with third parties or in any other manner which you have not authorized.

Clients who do not have internet access or have difficulty downloading PDF files may ask to receive a packet by US mail.

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## SUBSTANTIATING DOCUMENTATION REQUIRED



After more than 3 decades in the biz, I should have seen it all. But each year clients manage to surprise me: There was Martin who provided his tax data to me in a 32-gallon Hefty trash bag that contained relevant papers, along with 10 empty beer cans and a few cigarette butts. And Sally who didn't want to mail her W-2s to me, preferring instead to read them aloud line by line. Samantha, by contrast, was beautifully organized and dropped off a lovely accordion file into which she had placed her tax documents... sorted by size rather than by date or category. Trevor made life simple, efficiently dropping his receipts and documents into a box neatly and prominently labeled "Tax S\*\*t." I'd like to say that I *almost* don't care how you provide your data to me, just as long as you give me what I need. Therefore, in addition to the obvious W-2s and 1099s that should begin to dribble in during these next few weeks, here's what I will ask you to provide (as applicable):

**Form 1099-B:** Taxpayers should review cost basis information provided by brokerage firms to ensure proper reporting of gains and losses attributable to sales of stock acquired through the exercise of stock options. **NOTE:** Brokerage firms do not adjust basis for income reported on a W-2, leaving taxpayers to manually adjust basis when filing the return.

**Form 1099-C:** If you receive this form from a lender after negotiating a debt cancellation, you'll have to report the amount of forgiven debt as taxable income unless the debt was discharged in a Title 11 bankruptcy proceeding or you were insolvent at the time the debt was cancelled. Excludible Qualified Principal Residence Indebtedness (QPRI) up to \$2 million was allowable through 2017. The favorable provision then expired but was recently revived and made retroactive under CAA, which allows taxpayers to exclude up to \$375K (if single) or \$750K (if married) of forgiven mortgage debt through 2025.



**NOTE:** The allowable limits were reduced for debts discharged after 2020. Affected taxpayers may file amended returns to claim any previously disallowed exclusions for TY'18 and TY'19.

**Form 1099-K:** Under new rules, most California (CA) workers will be classified as "employees" rather than "independent contractors" and will, under state law, receive W-2s reporting wage income. Some workers, however, may continue to be treated as independent contractors for federal tax purposes and will, therefore, receive 1099s reporting *federal* non-employee compensation which must then be reconciled with *state* wage income. For 2020, payers must issue Form 1099-NEC to independent contractors who earn more than \$600 during the calendar year. As it turns out, many gig companies issue Forms 1099-K rather than 1099-NEC to their workers because these companies claim to provide mere "transactional" services to their workers. 1099-Ks are used to report payments processed through a credit, debit or gift card and are required to be filed only if the worker earns more than \$20K in a series of more than 200 transactions. As a result, certain workers – such as Uber and Lyft drivers – may receive neither a 1099-K or 1099-NEC. Regardless, all gross earnings are reportable whether or



not the taxpayer receives a reporting document! [Federal](#) and [state](#) tax authorities offer filing tips and tax strategies for workers and businesses affected by the sharing (or gig) economy.

**Forms 1099-SA and 5498-SA:** California does not conform to the federal tax treatment of the Health Savings Account (HSA); as a result, state residents must include the annual investment income (loss) in their CA Adjusted Gross Income (AGI), increase the medical expense deduction for any qualified expenses paid by the HSA and reduce CA income by the amount of any taxable distributions received. **TO DO:** If the information is not provided on the information returns, clients will be asked to obtain the missing items from their employers.

**Form 1098-T:** Rule changes mandate that taxpayers wishing to claim one or more education credits must provide a Tuition Statement. **TO DO:** Although some schools may send hard copies by mail, taxpayers may log onto the student's school account to pull down an online version.

**Settlement Statements:** Previously known as the HUD-1 Buyer's (Seller's) Closing Escrow Statement, this form has been replaced by the Loan Estimate and the Closing Disclosure. Presuming that you have purchased or sold real estate at any time in the prior year, you must provide complete copies of both forms to me so that I may properly account for your transaction.

**Form 1098:** The federal deduction for home mortgage interest is now limited to interest accrued on a maximum of \$750K acquisition debt. Older mortgages – unless refinanced after December 15, 2017 – have been grandfathered and remain eligible for the previous limitation of \$1 million. Interest on home equity debt and lines of credit (HELOC) is no longer deductible, unless the loan proceeds are used to improve the personal residence which secures the debt. **TO DO:** To ensure that you obtain the maximum tax benefit, please provide an accurate accounting of how the loan proceeds were used.

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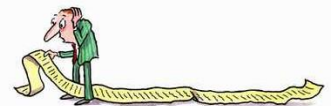
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**Charitable Contributions:** If you wish to claim a tax deduction, you must provide me with written letters of acknowledgement from each donee organization which include (1) the name and tax ID number of the receiving organization, (2) your name and address, (3) the date and amount of cash contributed or a description of any non-cash item(s) contributed, and (4) a statement that no goods or services were provided by the organization in return for your contribution or a description and good faith estimate of the value of goods or services that you received. As per IRS rules, *this letter must be in hand before submitting your return.* If you contributed non-cash items such as clothing or housewares, you must provide me with a copy of a written receipt, along with a *description of items donated and an estimate of fair market value.* Both Goodwill and Salvation Army offer valuation worksheets, accessible from links on my website in a section dedicated to [“Charitable Giving.”](#) **NOTE:** Substantiation rules apply even to those taxpayers who do not itemize on Schedule A but still wish to claim the above-the-line deduction of up \$300 (if single) or \$600 (if married) newly allowed under CARES.



**Mileage Log:** You may claim deductions for medical, charitable, and business miles *if* you can offer satisfactory substantiation. IRS rules require that you maintain a contemporaneous log detailing the date, the business purpose, and the beginning and ending odometer readings for each trip. Remember that your daily commute from your home to your permanent work location does not qualify for a business mileage deduction. You may use a [hand-written log](#), a computerized spreadsheet or even a smartphone app.

**Repairs:** If you are a landlord or business owner and wish to deduct your outlays for repairs, improvements, materials, or supplies, you must provide me with a detailed list including date, cost and description of each item purchased or project undertaken so that I may determine if your outlay can be currently expensed or must be capitalized.



**Foreign Pension Plans:** As the world turns and shrinks, more US taxpayers work abroad and often invest in foreign pension plans. In general, such retirement accounts are not deemed to be “qualified” and are therefore ineligible for the tax benefits granted to US-based accounts, such as IRAs and 401(k) plans. Additionally, they are subject to onerous reporting requirements applicable to [passive foreign investment companies](#) (PFICs), including foreign mutual funds, money market accounts, pension funds, partnerships, and other pooled investment vehicles such as REITs. The PFIC regime was designed to close a loophole that encouraged US taxpayers to shelter investments from taxation by heading offshore. Since failure to attach a completed Form 8621 to your tax return for *each* PFIC owned can lead to substantial penalties, you must let me know about your foreign investments. **REMINDER:** Foreign bank accounts may separately be subject to FBAR reporting and specified foreign assets may be reportable on Form 8938 under the FATCA regime.



**Unrelated Business Income (UBI):** Taxpayers who have used retirement account funds to purchase a limited partnership may be subject to additional reporting. While investment income earned inside an IRA account is generally not reportable until assets are distributed at retirement, UBI in excess of \$1,000/year is reportable and taxable. Failure to File Form 990-T may result in the disqualification of an otherwise qualified retirement plan, resulting in a deemed distribution of a lump-sum that is fully taxable. **TO DO:** Be sure to provide me with your K-1s for review.

**Cryptocurrency:** In its effort to encourage taxpayers to report previously undisclosed income, the IRS has moved its compliance question from Schedule 1 to the top of Form 1040 asking taxpayers if they received, sold, sent, exchanged or otherwise acquired virtual currency during the tax year. Failure to report cryptocurrency transactions can lead to civil and criminal penalties. As a result, I urge you to maintain accurate records that include the date the currency was purchased, mined, or received; the description, amount and value of units received, sold or exchanged; along with the cost and purpose of the transaction. **NOTE:** These currencies will be treated as property, which may result in income recognition if received in lieu of wages, or when coins are mined, sold or exchanged. A question will be asked on my Personal Tax Organizer that should remind you of your reporting obligations and serve to alert me of your virtual currency activities.



**Nanny Tax:** If you employ a domestic worker (e.g., nanny or senior caregiver), you are subject to quarterly and annual tax reporting requirements in addition to complex employment rules (e.g., [minimum wage](#), overtime, vacation pay, sick leave, benefits, etc.). All employers – including household employers – are required to electronically submit employment tax returns, wage reports, and payroll tax deposits to CA’s Employment Development Department (EDD).

**Estimated Tax Payments:** CA taxpayers may easily obtain a record of payments made to the FTB [online](#). Obtaining comparable information from the IRS is a bit more difficult but not impossible: Either request a [Tax Account Transcript](#) which will arrive by mail in about 10 days, log on to your [IRS Account](#) to check the history of all previously-submitted online payments, or call the IRS at (800) 829-1040.



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**ID Theft:** The IRS IP PIN program has recently been expanded to allow *all* taxpayers to voluntarily opt-in beginning in early 2021. **TO DO:** Because the IRS will reject your return if it is e-filed with an incorrect or missing IP PIN once assigned, you must provide me with a copy of the IP PIN letter (CP-01A) that you received. If you misplaced the letter, you may go online to [Get Your IP PIN](#). If you are unable to validate your identity, you must call the IRS at (800) 908-4490.

## ADMINISTRATIVE ISSUES




### GETTING HELP

While I'm always pleased to answer your e-mails and return your calls, I have – with premonition – posted the answers to many of your questions on my website on a page entitled [How to...](#) Topics range from how to reach the IRS, cancel an automatic debit, find out if your amended return has been processed, order a transcript, and simply [have fun](#). Check it out and see just how clairvoyant WikiMonica is!

### GETTING READY

While I have always welcomed clients to my office in the past, COVID of course changed all that mid-season in 2020. New office policies were forcibly instituted and will apply to the current tax season:

1. The ball is in your court to initiate the tax prep process by downloading my Client Packet located in a manila envelope in the sidebar of my [Home](#) page. Kindly sign the **Engagement Agreement** and **Taxpayer Consent** forms; then return them to me along with a check or [online payment](#) for the **retainer fee (\$425)**.
2. Tax data will be accepted by mail, fax or scan only. **TO DO:** To ensure the integrity of your data, I strongly urge you to use my [secure upload link](#) – it is as simple as dragging and dropping a file in the box. You can even protect your file with a password but will of course have to provide your selected password to me by phone or e-mail. **NOTE: I will not accept any drop-offs.** Clients who no longer trust regular mail, may instead ship a packet via USPS Priority Mail, UPS, or FedEx.
3. I will, of course, acknowledge receipt of your materials and place your file into my queue. **NOTE:** Returns are prepared in the order in which I receive complete tax data. The sooner you submit your items, the sooner your file will percolate to the top of my work pile. 
4. Once your returns have been completed, they will be electronically and securely delivered to you. You will be asked to sign the **Client Acceptance** form indicating that you have received, downloaded, and reviewed your tax packet. And you will be asked to promptly pay my invoice (your advance payment will, of course, have been applied).
5. Upon receipt of your payment and signed Acceptance, I will provide you with federal and state **e-File Authorization** forms which you must sign and return so that I may submit the returns on your behalf.

Clients who do not have printing or scanning capabilities, can always use a smartphone to capture a *clear* image of any document. Clients who do not have internet access, may request a hard copy of the completed tax packet.

### GETTING A BARGAIN

I have always kept my fees as low as possible and pledge to continue that practice. But due to ever-greater regulatory demands, additional recordkeeping requirements and rising overhead costs, my fees have on occasion increased nominally; nevertheless, they remain competitive with industry standards. Any fee increase may be mitigated in part or in whole with the Student, Senior or Multi-Return Discounts (15%), as well as the Early Bird Discount (10%) given to the first 200 clients who **provide all of their tax data to me on or before February 15<sup>th</sup>**. My Service Contract entitling you to *free* year-round consultation on most routine tax issues is available for a 25% discount if purchased when we complete the tax preparation process.

So, let's get started! I look forward to once again working with you and any referrals you send my way...

*Monica*

Opinions and recommendations stated herein are limited to those issues discussed above. This opinion does not consider or provide a conclusion with respect to any additional issues that may exist. Please be advised that any tax advice in this communication, including attachments and enclosures, was not intended or written to be used--and cannot be used by any taxpayer--for the purposes of avoiding any penalties that may be imposed by the tax authorities.

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