

Dear Friends and Clients,

This is the part of my annual missive that I used to enjoy writing the most. It is the only section of my otherwise newsworthy letter that many of you read because you are far more interested in a personal bulletin than a litany of tax code vicissitudes. I have long ago accepted that my dedicated efforts to keep you apprised of legislative updates are often for naught and that you instead prefer to just trust *me* to know about the changes and apply them to your situation as appropriate. I am content to bask in this glory of your confidence in exchange for many “wasted” literary labors!



And so, I used to share with you tales of my travels, family sagas, and client anecdotes. Do you remember when I discovered that ancient Calabrian communities had been founded by Greek slaves escaping the wrath of their masters who would return from wars in faraway lands only to discover that their adulterous wives had taken up with the household help? Or the narrow cobblestone alley in Granada I thought would accommodate my rental car where even Ferdinand and Isabella’s horse-drawn carriage would not dare to go?! Or the time that the Brady Bunch mom tussled my hair and said “Good job, kid”; clearly not referring to my less than stellar navigational skills?



COVID has, of course, curtailed my travels and my of distant adventures. I can share with you that my we mist it two and three times daily. My inherited old Chinese elm, and the firecracker plants – true to the year. Exciting, huh?



ability to regale you with narratives seedling redwood has grown into a miniature “forest” as staghorn fern is thriving under the shade of our 75-year-their name – have blossomed brilliant red for much of

Hardly the stuff of Steinbeck’s *Travels with Charlie*, or Bryson’s *Lost Continent*, or Twain’s *Tramp Abroad*, or Hemingway’s *Green Hills of Africa*. Life, for the moment, remains sedentary and safe. In fact, life is so quiet boring that Google for some reason lists my business as “permanently closed.” [It is NOT!] A long-term client, who very proudly mastered the internet found the erroneous listing and called me in a panic to ask if I was still working, planning on retiring, or had already finished. I assured her that I was still here, still serving clients, still working hard. But she was convinced that Google (not I) was right and very dejectedly replied, “Gosh, I don’t know what to do now.”

My advice: (1) Don’t believe everything you see on the web and (2) read on as I once more have spent considerable time studying the ceaseless stream of legislative changes that will have an impact on your tax filings. I have 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. **NOTE:** Clients who do not have internet access or have difficulty downloading PDF files, may ask to receive a packet by US mail.

Please sign and return the **Engagement Agreement** and **Taxpayer Consent** forms along with a check or [online payment](#) to cover the mandatory **Advance Payment** (\$450) 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.

SUBSTANTIATING DOCUMENTATION REQUIRED

For your protection and mine – and to mitigate the unpleasant fallout from an audit – I am a stickler for documentation. Your protests to the contrary will fall on deaf ears. It’s always easier to calmly gather the necessary paperwork nearest to the time that a transaction has occurred rather than in a panic when a tax examiner makes his demands as many as three and four years later. Do it now! (It’s easier than you think.) Here’s a helpful list of items that we may need in addition to the obvious W-2s and 1099s that should begin to dribble in during these next few weeks:



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) allows taxpayers to exclude up to \$750K of forgiven mortgage debt through 2025. **NOTE:** California (CA) does not conform.

Form 1099-NEC: Under new rules, most 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. **TO DO:** Payers must issue Form 1099-NEC to independent contractors who earn more than \$600 during the calendar year.

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Form 1099-MISC may no longer be used to report non-employee compensation. Form 1099-NEC must be provided to payees and filed with the IRS on or before January 31st.

Form 1099-K: As it turns out, many gig companies issue Forms 1099-K rather than 1099-NEC 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 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.

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 to \$300 (if single) or \$600 (if married).

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 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.

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Cryptocurrency: In its effort to encourage taxpayers to report previously undisclosed income, the IRS now includes a compliance question on Form 1040 that *all* taxpayers must answer. “Yes” is required if taxpayers have received, sold, exchanged, or otherwise disposed of virtual currency during the tax year. However, taxpayers may answer “no” if they have merely purchased virtual currency in exchange for fiat currency (e.g., US dollars). **NOTE:** Failure to report cryptocurrency transactions can lead to civil and criminal penalties. I, therefore, 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. Virtual 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.

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.

ID Theft: To prevent the filing of fraudulent tax returns, taxpayers may now [register](#) for an IP PIN with the IRS. **TO DO:** Because the IRS will reject your return if it is e-filed with an incorrect or missing IP PIN, 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 or call the IRS at (800) 908-4490 to re-validate your identity.

ADMINISTRATIVE ISSUES

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!



Office procedures instituted at the onset of the pandemic will continue to apply during the upcoming tax season:

STEP 1: GETTING STARTED NOW... Initiate the tax prep process by downloading my Client Packet located in a manila envelope in the sidebar of my [Home](#) page as soon as possible. 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 (\$450)**. Any over-payment will be graciously refunded at the completion of the tax prep process.

STEP 2: SUBMITTING DATA... Tax data will be accepted by mail, fax, or scan only. Clients unable to scan or print documents, may use a smartphone to create a *clear* image for submission. **TO DO:** To ensure the integrity of your data, please 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. Clients who are unable to use the upload link should provide their materials via tracking services offered by USPS Priority Mail, UPS, or FedEx. 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.

STEP 3: FINISHING UP... Once your returns have been completed, they will be electronically and securely delivered to you. Clients who do not have internet access, may request a hard copy of the completed tax packet. 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. 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.

DISCOUNTS: I have always kept my fees as low as possible. 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. Your fee increase may be offset in part or in whole with 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 15th**. My Service Contract entitling you to *free* year-round consultation on most routine tax issues is available for a 25% discount if purchased as we complete the tax preparation process.



So, let’s get started! I look forward to working with you again...

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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