

Dear Friends and Clients,

Early last year, you graciously allowed me to celebrate my dad's 90th birthday just as the tax season should have been under-way. And while we could have postponed commemorating the auspicious occasion, it seemed important to be together *on* the actual day in mid-February and so my sister and I met up with Dad and Heide in Madrid and headed south into Andalucia. Dad has slowed little over the years, continuing to hitch-hike the world over, scramble up alpine mountainsides and camp wherever he can find flat ground. But as a concession to his celebrated status rather than age, we did on occasion sight-see American-style: And so we ventured by car down a *narrow* cobblestone street into medieval Granada amongst white-washed residences which converged ever more until suddenly we were nose to nose with an oncoming moped and two cars behind him. We had nowhere to go but back, reversing uphill, alternating clutch and brake impatient drivers stared at us from the front. My sister got out to provide helpful hand encouragement, while Heide made sounds of terror from the rear seat and Dad hissed to walls and protruding door stoops. With only an inch to spare on either side, I was Nora's good judgment until I finally managed to back out of the street where no horse-



while angry and signals and as I came ever closer entirely dependent on drawn carriage or even

Smart car would have dared to venture. As nerves calmed and blurred vision was restored, we finally saw the sign that clearly marked "no entry" to the little roadway, but we all agreed that it simply had not been there before!



Exhausted, we slept like (and with) kings that night. At 8PM, we rolled through the palace gates of the Alhambra into our luxurious parador, a former Catholic monastery built amidst the gurgling fountains and lush gardens of a mid-13th century Moorish castle that in 1492 became the Royal Court of Ferdinand and Isabella who sent Christopher Columbus to explore the New World. The Alhambra which, like any Roman fortress, appears ominous and oppressive from the outside astounds with a feeling of airiness and serenity from the inside. Visitors are instantly transported into the fabulous and fantastic world of Scheherazade, silk-bedecked divans, filigree stucco work adorned with the graceful curves of the Arabic alphabet and colorful geometric tiles. While the Moors were eventually brutally expelled, their architecture survived; even as Spanish kings took possession and claimed the palace as their own, they left its interior relatively unchanged and untouched. After all, perfection simply could not have been improved upon!



But now a new tax season is upon us and we must turn to matters at hand: Each year, a handful of clients leave the fold. Some move away and incorrectly believe that I can no longer address their needs [although I *am* federally licensed, eligible to practice in all 50 states, and routinely serve national and international taxpayers]. Others die [how rude!]. But there are always the few who are lured by potential cost savings and choose to go the do-it-yourself route. Invariably they return and are welcomed back with open arms as they discover what the rest of you already know: Preparing a tax return is not merely entering a few figures on various schedules and allowing software to compute the resulting liability.

Instead, the tax prep process involves the proper application of ever-changing regulations, seeking the most favorable treatment of income and expenses to ensure that a taxpayer pays the least amount of tax legally allowable, and that the tax return can withstand the scrutiny of an examiner if selected for audit. hours during the season and much of my down-time reading the Revenue Procedures, identifying non-conforming state rules, seeking low- and high-income earners, culling the mass of information, and points to you in a usable and understandable format. You'll find the resulting *Highlights of Pertinent Tax Code Changes (TY 2016)* [here](#) or on the [Materials](#) page of my website. Check it out to learn about critical filing deadlines, Medicare surtaxes, private debt collectors, tax strategies to save you money, and much more.



To accomplish the task, I spend many Code, familiarizing myself with out tax minimization strategies for finally presenting that most salient

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Then be sure to come back here to read about all the practical stuff like documentation requirements, [office policies](#) and the various ways you can qualify for **discounts** to reduce your tax prep bill.



DOCUMENTATION

Inevitably one client or another becomes frustrated by my requests for tax data, complaining “You didn’t ask for that last year” or “My co-worker’s brother-in-law’s accountant never asks for that!” While I cannot speak for other practitioners, I can assure you that I do not ask for items merely to annoy you but because I demand the same diligence of my clients as they expect of me. Together, as a team, we can then produce tax returns of quality and integrity. 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):

Forms 1095: These forms are used to verify that you had healthcare coverage during 2016, whether purchased through the Marketplace (Form 1095-A) or a private insurer (Form 1095-B) or your employer (Form 1095-C). All insurance providers must provide Forms 1095-B and 1095-C on or before March 2nd; Form 1095-A must be furnished by January 31st. Although the IRS has said that it is not necessary to wait for Forms 1095-B or 1095-C in order to file, my office policies dictate that we have these forms in hand prior to submitting your tax returns. Requisite information may in some circumstances be available from other sources but I have often found these to be unreliable. And if a tax return is filed with incorrect information, it may have to be amended; thereby, incurring additional tax prep fees and potentially drawing unwarranted attention from an IRS examiner. I, therefore, suggest that you **submit all of your other data to me as you receive it now and in February** so that you may get into my queue. I’ll then have a chance to prepare most of your return and will be able to finish up quickly when the elusive 1095 finally arrives.




Form 1098-T: Recent rule changes mandate that taxpayers wishing to claim one or more education credits must provide a Tuition Statement. While some schools may send hard copies by mail, others may ask the taxpayer to **log onto the student’s school account to pull down an online version.**

Form 1099-B: Taxpayers selling stock acquired through the exercise of a non-qualified stock option (NQSO) must manually adjust basis to reflect income recognized upon the exercise or vesting of stock options. I will be happy to assist with the requisite computations. Affected clients should provide me with the amount of previously taxed income which will generally have been reported as wages. Although included in Box 1 of Form W-2, the NQSO income is not separately identified, so you may have to **contact your employer for additional information** to avoid double taxation.

Settlement Statements: Previously known as the Buyer’s (Seller’s) Closing Escrow Statement, this form has now been replaced by the Loan Estimate and the Closing Disclosure, rendering HUD-1 obsolete. Presuming that you have purchased or sold real estate at any time during 2016, you must **provide complete copies of both forms** to me so that I may properly account for your transaction.

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 household goods, you must provide me with a copy of a written receipt, along with a **list or 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”](#).



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 keep a [hand-written log](#) in a notebook, a computerized spreadsheet or even a smartphone app. While the IRS will resolutely deny your deduction if you did not diligently maintain a log, some taxpayers have prevailed in court by submitting alternative forms of proof such as ATM withdrawals and credit card statements validating fuel charges, as  well as repair receipts offering third party verification of odometer readings. But these documents may only be used to bolster a taxpayer’s claim that the fully documented portion of the year is in fact representative of the undocumented portion. In years past, I have asked my clients to acknowledge these rules and certify that they do in fact have proper documentation. In today’s more stringent regulatory environment, I may ask you to **provide me with a copy of your log** (or annotated appointment book).

Repairs: If you are a landlord or business owner and wish to deduct your outlays for repairs, improvements, materials or supplies, I must remind you that the IRS has issued new [Repair Regulations](#). While reporting thresholds have recently been

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increased for certain expenditures, it is nevertheless crucial that your outlay is properly classified. As a result, I will ask you to **provide a detailed list including date, cost and description of each item purchased or project undertaken** so that I may determine if your outlay may be currently expensed or capitalized.

Gambling Losses: Recent court cases have upheld the IRS rule that gambling gains and losses must be netted on a per-session (not annual) basis. A session of play begins when the gambler places his first wager on a particular type of game and ends when the gambler completes his last wager on the same type of game before the end of the same calendar day. However, if the gambler plays slots at Casino # 1, then leaves to play slots at Casino # 2 on the same day, he will have engaged in separate sessions of play and must net his gains and losses from each session separately. If you wish to claim a deduction for gambling losses, you should be prepared to **certify that you understand these rules** and provide me with a copy of your gambling log.



Payroll: 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.). Employers with 10 or more employees are now required to electronically submit employment tax returns, wage reports, and payroll tax deposits to California's Employment Development Department (EDD); small employers – including household employers – will be subject to the [e-file mandate](#) beginning in 2018. There are many companies which specialize in payroll reporting; [HomePay](#), for example, specifically works with domestic employers in all 50 states to ensure that all regulatory requirements are satisfied and offers a **free introductory consultation**.

Estimated Tax Payments: Clients often receive correspondence from the tax authorities after their returns have been filed notifying them of “changes” and “adjustments”, almost always because the tax payments reported on the return do not match the amounts that the IRS or FTB have on record. 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 [EFTPS account](#) to check the history of all previously-submitted online payments, or call the IRS at (800) 829-1040. Call early in the day and be prepared to wait! And be sure to **provide your ES payment information** when you provide your tax data to me.



ID Theft: As part of its efforts to crack down on tax fraud, the IRS is issuing **IP PIN letters** to taxpayers who reported or were identified as victims of identity theft. Because the IRS will reject your return if it is e-filed with your SSN but an incorrect or missing IP PIN, it is imperative that you provide me with a copy of the letter if you received one. Additionally, the IRS has instituted the use of a 16-digit **W-2 Verification Code** on some (but not yet all) W-2s issued this January. If your W-2 has this code, it must be entered into the preparation software to ensure proper e-filing of your return; therefore, I must ask that you be sure to submit the original W-2 or a clearly legible copy when providing your tax data to me. In some instances, taxpayers may receive letters from the tax authorities asking them to verify their identity. While some taxpayers may worry that these letters are themselves fraudulent, **IRS Letter 5071C** and **FTB Form 4734D** are in fact legitimate. Taxpayers are asked to respond to ensure further processing of their returns and refund requests. If you are concerned about these letters, kindly forward a complete copy to me so that I may advise further.

Tax Fraud: In 2016, Indian authorities arrested dozens of managers of 9 call centers from which more than 700 callers made thousands of calls a day impersonating IRS agents to accuse American taxpayers of failing to pay their taxes and threaten them with jail time if they didn't pay up immediately. The US Treasury Inspector General for Tax Administration claims it received more than 1.7 million complaints of such calls in the last 3 years; more than 8,800 victims have paid more than \$47 million as a result of these scams. The fallout from the arrest has been a near-immediate and dramatic drop in the number of related complaints. Please **head for my Fraud page** for additional information, tools and links to report and protect yourself if you think you've been victimized, even an ever-expanding list of telephone numbers that scammers have used when demanding call-backs from potential prey.



Referrals: When one scam ceases to be lucrative, another arises in its place as opportunistic criminals develop an expanding arsenal of tools designed to defraud taxpayers. Most recently, the IRS warned practitioners about e-mails that state "I need a preparer to file my taxes." Always eager to serve new clients, an unsuspecting practitioner may download a potential client's tax information or access a site with the potential client's tax information but will, instead, fall prey to a clever phishing scheme designed to mine critical information. It's almost enough to scare careful tax professionals from taking on *any* new clients! Alas, my business depends on your loyalty and your referrals whom I will eagerly welcome. All I ask is that new folks **provide me with the source of their referral**.

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DISCOUNTS

As in every year, I will continue to offer my Student, Senior, Out-Patient and Multi-Return Discounts (15%), as well as the Early Bird Discount (10%) **to the first 200 clients who provide all of their tax data to me on or before February 17th**. And, 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. The contract, as well as all services may be purchased via PayPal™ directly on the [Payments](#) page of my website.



And to commemorate my 30th year as a solo tax practitioner, I am offering a special **\$30 discount to all who send me a note to congratulate me** in this anniversary year.

Since I am always grateful when you tout my services and send others my way, I will again reward you with a generous **gift card for every referral** who becomes a client.

WHAT TO DO NOW

Okay, you've made it to the end of this missive. Thank you! Now it's time to gather your data, schedule an appointment or send your information to me. I ask that clients submit their data to me in a security-conscious manner. If you wish to use a secure server and do not have a preferred provider of your own, you may head for the [Contact](#) page of my website to **access a link that allows for easy upload and convenient transmission**. If you would rather use e-mail to send documents and information, please be sure to password-protect your PDF attachments. Of course, mail and fax work as well; and you may certainly schedule an in-office appointment if you prefer.

NOTE: *As per my office policies and for your protection, I will transmit sensitive information to you via [SendFilesSecurely](#), a secure HTTPS server that stores files with high-grade encryption for up to 7 days. You will receive an e-mail message providing you with a password and a unique link from which you may retrieve the file that I have uploaded for you. On occasion, I may instead send you a password-protected PDF. For added security during electronic transmission, I will redact critical information such as taxpayer ID and bank routing numbers. If this is not satisfactory or you are unable to open and download an electronic item, you will have to make arrangements for physical delivery.*



Click in the sidebar to the right or head for my [Home](#) page and click on the [Client Packet](#) folder where you'll find everything you need, including my *Personal Tax Organizer* as well as a list of *Documents Needed for Tax Preparation* and my copyrighted *Summary of Important Tax Data*. Clients who do not have internet access or have difficulty downloading PDF files **may request a packet by US mail**.

If you return the Engagement Agreement and Taxpayer Consent form along with a check or [online payment](#) of my \$375 retainer fee by January 31st, I will deduct an additional \$25 from your tax preparation invoice. It's my way of saying thanks for making a commitment to me and to the preparation process.

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"] should 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.*

Let the tax season begin! I look forward to working with you, your friends, associates and family!

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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