

Dear Friends and Clients,

I'm back and at my desk again. Thanks for your patience!

Exuberant fireworks on the Grand Canal in Venice were rivaled by the tranquility of an early winter sunset off Capo Vaticano, the western-most point of Calabria. Zungri's Rupestrian commune – much like the cliff dwellings of Mesa Verde – preserved evidence of man's resourcefulness: Basilian monks fleeing Muslim persecution in the 6<sup>th</sup> and 7<sup>th</sup> centuries holed up in natural sandstone caves roughly at the same time that ancestral Pueblo peoples scampered up seemingly inaccessible canyon walls of the southwestern Colorado plateau seeking sanctuary from their enemies. While uncanny parallels could be found, the toe of Italy's boot offered so much more; from alpine forests shrouded in fog to azure waters lapping up on the sandy beaches of the Tyrrhenian and Ionian Seas; from medieval villages perched on steep hillsides to archaeological excavations of Magna Graecian settlements such as Locri, founded by Greek slaves who had taken up with the wives of their masters while the husbands were on extended (and apparently perpetual) military duty in lands far from home. I'm guessing that the slaves and the philandering wives thought it best to flee Greece before the warrior husbands returned home to their adulterous wives and social climbing peons.



My explorations allowed for much-needed time to let the dust settle on the Tax Cuts and Jobs Act (TCJA), enacted on December 20<sup>th</sup>, 2017. Considered to be the most sweeping tax legislation since 1986, there's a lot to digest. But because most changes are not retroactive, the new code has little impact on the current filing season. That said, I refer you to my annual [Summary of Important Tax Data](#) and Pertinent Code Changes, available as part of my Client Packet which is now available on the [Home](#) page of my website. Just click on the manila folder in the right-hand sidebar [] to download the [Client Packet](#) which includes my *Personal Tax Organizer* as well as a list of *Documents Needed for Tax Preparation*, *Office Policies*, and all the forms needed to 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** (\$395) 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 request a packet by US mail.



Here is a summary of information to help you prepare for the current tax season: **REMINDER:** We are currently working on 2017 returns. Changes for 2018 and beyond will be discussed at the end of this letter.

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):

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**Forms 1095:** These forms are used to verify that you had healthcare coverage during 2017, 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 2<sup>nd</sup>; Form 1095-A must be furnished by January 31<sup>st</sup>. As per my stated [Office Policies](#), these forms must be in hand prior to submitting your tax returns. Rather than wait for the elusive forms, I suggest that you **submit all of your other data to me as you receive it now and in February**. This will give me the chance to prepare most of your return and then quickly finish things up when the 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 HUD-1 Buyer's (Seller's) Closing Escrow Statement, this form has now 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.

**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 remind you that the IRS has issued [Repair Regulations](#). While reporting thresholds have been increased for certain expenditures, it is nevertheless crucial that your outlay is properly classified. As a result, I 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 must be capitalized.

**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. Therefore, it is imperative that you **provide me with any K-1s that you may receive**. Upon review, I may recommend that you contact the IRA trustee who bears the responsibility of filing the requisite forms on your behalf.

**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

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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.). All employers – including household employers – are now required to electronically submit employment tax returns, wage reports, and payroll tax deposits to California’s Employment Development Department (EDD). 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** (CP-01A) 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. If you have misplaced the letter, you can go online to [Get Your IP PIN](#). You will be asked to validate your identity; if you are unable to do so, you’ll have to call the IRS at (800) 908-4490.



**Fraud Protection:** The IRS has instituted the use of a 16-digit **W-2 Verification Code** on some (but not yet all) W-2s issued last 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 ask that you 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.



Finally, for those of you who have been waiting to hear how the new Code may impact your tax situation for 2018 and beyond, here are a few of the biggest changes that may affect you:

**Tax rates:** Both individual and corporate rates have changed. The maximum individual rate has been reduced to 37% and the corporate rate is now a flat 21%. However, we are still awaiting guidance from the IRS as to how individual business owners may benefit; I urge you not to rush to incorporate since the tax savings may be negligible or even non-existent and the costs of forming and maintaining a corporate entity may prove to be prohibitively expensive.

**Standard Deduction:** Although the deduction has roughly doubled, personal exemptions – the flat amount granted to each taxpayer and eligible dependents – has been eliminated. For many taxpayers, tax simplicity may come at the expense of tax deductions no longer allowed.

**Itemized Deductions:** Taxpayers who previously chose to itemize rather than claim the Standard Deduction, should note that they will no longer be able to deduct:

- State income tax and property taxes above \$10,000/year.
- Mortgage interest on acquisition debt in excess of \$750K if you purchase a new home.
- Interest paid on home equity debt.
- Moving expenses (even if job-related).
- Employee business expenses such as mileage, travel, entertainment, home office expenses, and union dues.
- Tax preparation and investment advisory fees.
- Casualty losses, unless sustained in a presidentially-declared disaster zone.

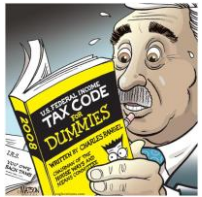
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**New Benefits:** The painful loss of these deductions may be offset for some taxpayers by:

- The AGI threshold for medical expenses which has been temporarily reduced from 10% to 7.5% of AGI for 2017 and 2018.
- The AMT threshold which has been increased so that fewer middle-income taxpayers will be subject to AMT.
- The AGI limitation for charitable contributions which has been raised from 50% to 60%.
- The Child Tax Credit which has been increased to \$2,000/child and a new Dependent Credit of \$500 for each non-child dependent.
- The estate tax exclusion, now doubled to \$11.2 million for deaths occurring in 2018.
- The annual gift tax exclusion now set at \$15,000 for 2018 and the maximum rate on gifts that has been decreased from 40% to 35%.

**Small Business:** Beginning in 2018, there will be up to a 20% deduction from net business income for a sole proprietorship, LLC (excluding those taxed as a C corporation), partnership, S corporation, and rental activity. The rules are incredibly complex but there is a lot of planning that we can do to maximize this deduction for you.

**State Conformity:** Actually, there is none in California! Because the federal code is in constant flux, the state legislature created the concept of a “specified date” which is used to identify which version of the Internal Revenue Code will be applied to each year for California purposes; this serves to freeze state law to that which is already known and avoids unintended conformity issues to subsequent federal changes. The current specified date is January 1<sup>st</sup>, 2015; therefore, most of the recent federal Code changes will not apply for state tax purposes. As a result, tax filings have in fact become more – rather than less – complex for California residents. Because the calculation of state taxable income begins with the taxable income computed for federal purposes, California taxpayers will have to make significant adjustments to determine the proper amount of income subject to state tax. In fact, it is not yet known if the Franchise Tax Board will design new forms to accommodate itemized deductions allowable under state law but disallowed under the new federal rules.



**CAVEAT:** Keep in mind, not all taxpayers are affected by all changes and each case is unique. I urge you not to follow even the most well-intentioned advice offered by your hair-stylist, your shoe-maker, or even your brother-in-law. Instead, I invite you to contact me if you would like to discuss the impact that the new law will have on your specific situation.

## 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 16<sup>th</sup>**. 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.

## REFERRALS

My business depends on your loyalty and your referrals. Be sure to ask your friends, associates and family members to mention your name so that I may thank you with a **gift card for every referral** who becomes a client.



## YOUR MISSION, MR. PHELPS, SHOULD YOU CHOOSE...

It's not really a choice at this point. With deadlines looming, it's time to gather your data, schedule an appointment or send your information to me. I ask you to submit your data to me in a security-conscious manner. I have provided you with the option to upload your data via a secure server: Simply head for the [Contact](#) page of my website to **access a link that allows for convenient and safe 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.

So 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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