

Dear Friends and Clients,



Like this joyous jumble of sneakers and these haunting relics of Arrow Cross victims, my peripatetic boots travelled many miles during this past year; from the icy banks of the Danube, Vltava and Vistula to “North America’s warmest beach” on Savary Island northwest of Vancouver, BC. My travels were as geographically wide-ranging as they were linguistically diverse. Hungarian – with no common Indo-European language roots – remains as cryptic to me as the seemingly arbitrary phonetic spellings of the 20+ First Nation languages with their 60+ dialects that have never before been written and passed only verbally from generation to generation. With most of these tongues now spoken by less than 2% of the native population and many that have gone “silent”, attempts have been made to create an alphabet using internationally accepted phonemes along with fabricated symbols to represent the guttural and otherwise unfamiliar sounds. The result



has common letters interspersed with hyphens, apostrophes, umlauts and even the number “7” thrown in at random intervals; and is about as intelligible as “mérgező gombák mellett különösen veszélyesek lehetnek azok a gombafajok,” a warning I encountered in Budapest that poison fungi can be particularly dangerous. Just imagine how charming that would have sounded if Eva Gabor’s Lisa had offered that obvious caution to her American husband “Olivah” on *Green Acres*!

Fortunately for you, I speak neither Hungarian nor Tsimshianic and will instead resort to Plain English to decipher the tax code for you. Enacted in late 2017, the Tax Cuts and Jobs Act (TCJA) is the most sweeping tax legislation ratified since 1986; this, then, is the first full year during which most of the many new provisions have taken effect. While I will address some of the changes in this letter, a broader analysis (along with tax-saving tips) is available in my *Summary of Pertinent Code Changes* as well as my copyrighted *Summary of Important Tax Data*. You’ll find both items in my Client Packet which is 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 (\$400)** 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.

### SUBSTANTIATING DOCUMENTATION REQUIRED

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:** Despite attention-grabbing headlines, GOP promises and even a recent US District Court ruling that portions of the Affordable Care Act (ACA) are unconstitutional, Obamacare is not dead and was still very much in effect during all of 2018. While the Shared Responsibility Penalty has been eliminated for 2019, taxpayers who cannot provide proof of ACA-mandated healthcare coverage for 2018 may be subject to a penalty equal to the greater of \$695/adult or 2.5% of household income for each month during which coverage was not maintained. As a result, you’ll be required to provide me with documentation to verify that you had ACA-approved coverage, 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 4<sup>th</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.**

**Forms 1099-SA and 5498-SA:** California (CA) 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. 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. 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.**

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**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. ~~NEW~~ 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. But because interest on a HELOC that is not qualified residence interest may still be deductible elsewhere on the return if the loan proceeds are used for business-related expenses, I ask you provide an **accurate accounting of how the loan proceeds were used**.

**Weight Loss Treatment:** The IRS considers obesity as a disease for tax purposes; therefore, amounts paid to participate in a weight loss program are deductible as medical expenses. To claim the deduction, you must provide a physician's prescription along with receipts to document your outlays for a medically-supervised program and dietary costs.  **NOTE:** Special food that merely replaces food normally consumed is not deductible.


**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](#)".

**Casualty Loss:** Losses due to fire, flood or other natural disaster are no longer federally deductible unless incurred in a presidentially-declared disaster zone. ~~NEW~~ As a result, you will be required to **provide the disaster code** assigned to the incident by the [Federal Emergency Management Agency \(FEMA\)](#) to claim a deduction.

**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](#), a computerized spreadsheet or even a smartphone app. Although the IRS will 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 today's stringent regulatory environment, I ask you to **provide me with a copy of your log** (or annotated appointment book). ~~NEW~~ Business miles and other previously allowed expenditures by wage-earners are no longer deductible since the deduction for unreimbursed employee expenses has been eliminated in its entirety.

**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](#) which require that your expenditure is properly classified. As a result, you must **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 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 must **provide me with a copy of your gambling log**. 

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**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 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. Be sure to [provide your ES payment information](#) 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, you must 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](#). If you are unable to validate your identity, 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. 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 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.

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## OTHER ITEMS FROM THE TAX CUT & JOBS ACT (TCJA)



**Alimony:** Spousal support payments pursuant to a divorce or written separation agreement executed after December 31, 2018 are no longer federally deductible by the payer or includible as taxable income by the recipient. **NOTE:** Separation agreements in California may be executed even before a divorce becomes final. Because alimony payments pursuant to an agreement that was in place prior to year-end 2018 or modifications that have been grandfathered remain deductible, clients must provide me with complete copies of all settlement agreements as well as the divorce decree beginning with TY’19.

**Moving Expenses:** The federal deduction for moving expenses has been eliminated but California continues to allow the deduction unless the taxpayer moves out of state and does not receive any California-source compensation after the move.

**Standard Deduction:** Although the deduction has been increased to \$12K (Single) and \$24K (MFJ), personal exemptions – the flat amount granted to each taxpayer and eligible dependents – has been eliminated. For many taxpayers, the resulting filing simplicity may come at the expense of tax deductions no longer allowed, including but not limited to state income tax and property taxes in excess of \$10,000/year, employee business expenses such as mileage, travel, entertainment, home office expenses and union dues, as well as tax preparation, attorney and investment advisory fees. The painful loss of these deductions may be offset for some taxpayers by such bonuses as the temporary extension of the 7.5% of AGI threshold for medical expenses and increased AMT thresholds (now roughly \$70K for individual filers and \$109K for those filing jointly).

**Meals & Entertainment:** The TCJA eliminated the federal deduction for most business entertainment expenses, such as sport and theater tickets, as well as meals consumed in conjunction with entertainment but not purchased separately.

**The §199A Deduction:** To help align the tax rates of pass-through entities with the newly enacted flat tax on corporations, a 20% deduction from qualified business income (QBI) has been made available to sole proprietorships, LLC, partnerships and S-Corporations. Despite the Treasury’s ambitiously comprehensive proposed regulations, it remains easier to determine what is not – rather than what is – QBI. For example, QBI does not include wages, reasonable S-Corp compensation, guaranteed partnership payments, investment income or income from publicly-traded partnerships; nor does rental real estate automatically qualify as QBI. Instead, the facts and circumstances of each taxpayer’s situation will determine if the rental activity can be classified as QBI. The §199A deduction may be reduced if income is derived from a “specified” service business (e.g., healthcare providers, accountants, investment advisors, attorneys, and other consultants). Such activities lose a portion of the allowable deduction if the taxpayer’s taxable income falls within the ranges of \$157K – 207.5K (Single) or \$315K – 415K (MFJ) and lose the deduction altogether if taxable income exceeds the upper-most thresholds.

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Remember that not all taxpayers are affected by all Code provisions and that 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 of the TCJA on your personal situation.

## ADMINISTRATIVE ISSUES

### SCHEDULING APPOINTMENTS

My genius web-guy has made it easy for you to get the tax prep process rolling: All you have to do is scroll over the big “?” at the top right of each page on my [website](#) to open an Information menu from which you’ll have easy access to web pages that allow you to leave a comment, pose a question, or read answers to [Frequently Asked Questions](#). This new menu can also take you directly to a form that allows to you request an appointment; making it super convenient for those clients who prefer old fashioned in-person, face-to-face meetings. All you have to do is click [here](#), fill in the information and submit the form. I’ll do my best to accommodate your requested time and send you a confirmation. For clients who prefer not to come in, I’ll happily accept your tax data by mail, fax or scan so that you may take advantage of my **Out-patient Discount (15%)**.

### FEE INCREASE

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. In the interest of full disclosure and to provide you with advance notice, *some* of my clients should expect a greater-than-usual increase due to changes mandated by the TCJA, the 257-page legislation (77,000 words!) that did not live up to the hype of “tax simplification”. By now it should be clear that the complexities of §199A, mortgage interest tracing rules, the de-coupling of the Kiddie Tax from parental returns, and newly enacted preparer due diligence requirements would alone warrant the need for a fee bump. But there are new forms to contend with as well: For example, Form 1040 used by individual filers has been re-designed and condensed to two half-pages (with only 23 lines instead of the original 79), but six (!) supplemental schedules are needed to gather the information that no longer fits onto the shortened form. And then there’s state conformity or *complete* lack thereof; which means that tax filings have in fact become more – rather than less – complex for California residents, most of whom will now have to file the new 3-page Schedule CA designed to account for the many differences between federal and state law.



While some of you may be tempted to prepare your own returns using off-the-shelf software, I remind you that tax preparation involves more than mere data input. An understanding of applicable laws allows for proper classification of income and expenses which can help to mitigate your tax liabilities, minimize the potential of an audit and strategize for the future. I am here to do all of that for you; at tax time and year-round. So, please, check with me before you decide to jump ship. My experience and expertise may well be worth the cost of my services, even if that cost is slightly higher than in previous years.

For those clients, whose returns have indeed become simpler due to the TCJA, I promise to **lower my fee**. And of course, I will continue to offer my Student, Senior 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 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. The contract, as well as all services may be purchased via PayPal™ directly on the [Payments](#) page of my website.

Lastly, because my business depends on your loyalty and your referrals, I ask that you introduce me to your friends, associates and family members and promise to thank you with a **gift card for every referral** who becomes a client.

### LET’S GET STARTED

It’s time to gather your data and send your information to me in a security-conscious manner. If you’d like, you may upload your data via a secure server by heading for the [Contact](#) page of my website where you may **access a link** that allows for convenient and safe transmission. If you would rather use e-mail to send documents and information, be sure to password-protect your PDF attachments. Mail and fax work as well; and, if you prefer, you may schedule an in-office appointment.

I look forward to once again 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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