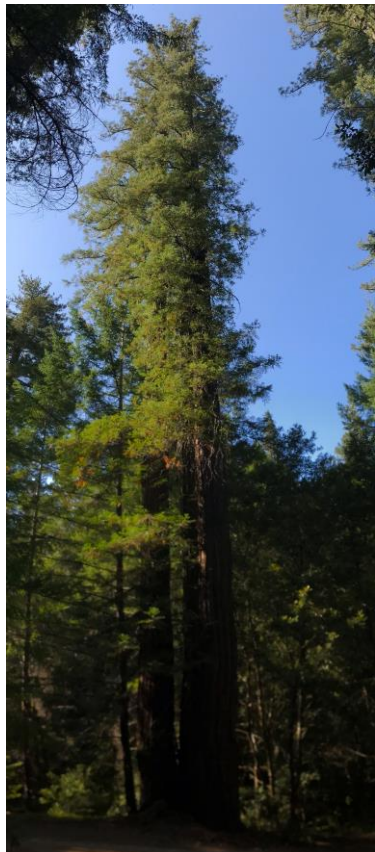


Dear Friends and Clients,



2019 was a year for family (and travel): My oldest nephew got married and provided us with the perfect excuse to corral a few relatives beneath a towering grove of redwoods in the mountains above Santa Cruz to watch as Justin and Einat energetically stomped on the cloth-wrapped glass to acknowledge that their marriage will inevitably hold sorrow as well as joy. Because we believed that this might be our last chance to gather our parents under one tree, my sister moved heaven and earth to bring my ailing mother (age 91) down from Portland while I arranged for my dad (age 93) and step-mother to fly in from Europe. The ensuing weeks were characterized by an ebb and flow as my travel group grew in size to include boyfriend and cousin while we ambled north along the Pacific Coast Highway; met up with the wedding party; split off as an expanded group of ten for a post-nuptial survey of the Monterrey Peninsula; trekked on with only a half-dozen to re-acquaint myself with the San Francisco Bay Area I'd lived in 30 years earlier; and finally hit the road in earnest with only a trio dedicated to exploring rocky beaches, fern-covered canyons, quaint clapboard villages and each coastal redwood grove as we inched our way toward California's northern border. We traversed pastoral farm country with aging barns and startling rocky crags protruding amidst golden fields, roamed past tidal salt marshes and grass-covered dunes with views of offshore monoliths surrounded by crashing waves, and ambled through a pygmy forest of cypresses, mini manzanitas and rhododendrons. We bumped along narrow dirt roads, unearthing 19th century Hebraic headstones hidden in roadside cemeteries and were lured to the Lost Coast where heavily wooded mountains rise steeply to 4000 feet from isolated black sand coves. Forced to make oft-sudden navigational turns to the east, we'd hike through Old Growth forests and commune with ancient trees that spoke to us silently as we stood below a canopy that was hundreds of feet above our heads.

And while the tops of these glorious redwoods may indeed have been on high, it remains my job to make sure that all things tax are not above your head. As in every year, I will address some tax matters along with record-keeping requirements and administrative issues in this letter, but will provide a broader analysis (along with tax-saving tips) 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):

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. As per IRS regulations, brokerage firms cannot 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. In earlier years, you could also exclude up to \$2 million of forgiven mortgage debt, but that provision expired at the end of 2017.



RETROACTIVE EXTENSION: The exclusion for certain qualified principle residence indebtedness has been reinstated for TY'18 (as well as TY'19 and TY'20 under some circumstances). If applicable, you may **ask that I prepare an amended return** to claim any refund due to you.

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Form 1099-K: Under new rules effective *this* January, 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 2019, payers must issue Form 1099-MISC 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-MISC 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 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 nor a 1099-MISC. **REMINDER:** All gross earnings are reportable whether or not the taxpayer receives a reporting document!



SAVINGS FOR YOU: The IRS has recently created an online [Gig Economy Tax Center](#), offering filing tips and tax strategies.

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. 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, taxpayers may **log onto the student’s school account to pull down an online version.**



RETROACTIVE EXTENSION: The above-the-line deduction for qualified education expenses has been reinstated for TY’18 – if applicable, you may **ask that I prepare an amended return** to claim any refund due to you.

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.

| Closing Disclosure | |
|---------------------|---------------------|
| Account Information | 01/01/2018 |
| Business | 01/01/2018 |
| Contract Number | 01/01/2018 |
| Contract Date | 01/01/2018 |
| File # | 12/18/18 |
| Printed | 01/01/2018 10:00 AM |
| Page No. | 1/1 |

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. 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.**



RETROACTIVE EXTENSION: The deduction for mortgage insurance premiums has been reinstated for TY’18 – if applicable, you may **ask that I prepare an amended return** to claim any refund due to you.

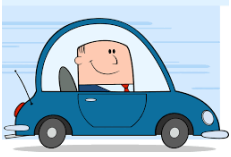
Charitable Contributions: If you wish to claim a tax deduction, you must provide me with written letters of acknowledgement from each donee organization which include (1) the name and tax ID number of the receiving organization, (2) your name and address, (3) the date and amount of cash contributed or 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. 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.

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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. 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).



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 seek 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. 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.

Cryptocurrency: In its effort to encourage taxpayers to report previously undisclosed income, the IRS has added a compliance question to Schedule 1 of Form 1040 that asks 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 ask you to maintain accurate records that include the date the currency was purchased, mined or received; the description, amount and value of any 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**.



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**.


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). 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**.



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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.

 **SAVINGS FOR YOU:** Tax penalties may be assessed for a host of reasons (including under- and late payments). Under the IRS’ [first-time penalty abatement policy](#), a taxpayer may qualify for administrative relief for failing to file a return, paying on time and/or timely depositing taxes due if that taxpayer 1) was not previously required to file a return for three prior years; 2) filed all currently required returns (or extension requests); and 3) has paid or arranged to pay and tax now due.

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 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: 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.

STUFF TO KNOW

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. 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 and divorce decrees.

Standard Deduction: The inflation-adjusted amounts for TY’19 are \$12.2K (Single) and \$24.4K (MFJ). For many taxpayers who no longer itemize, 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. Others will benefit from the temporary extension of the 7.5% of AGI threshold for medical expenses and increased AMT thresholds (now roughly \$72K for individual filers and \$112K for those filing jointly).

 **SAVINGS FOR YOU:** The unreimbursed expenses of performing artists – including child actors – may be deductible above-the-line for certain low-income (under \$16K) taxpayers who hold at least two acting jobs and whose allowable expenses exceed 10% of their gross acting income.

Business Expenses: Under IRC §162, taxpayers may deduct ordinary and necessary business expenses while “away from home” in the pursuit of a trade or business. To determine if travel expenses are deductible, the taxpayer must establish a *tax home*, defined as the principal place of employment not the location of the individual’s personal residence. The Tax Court has tried to clarify that a taxpayer’s home is where he wants to live; his tax home is where he *lives in order to work*. In some cases, the house and tax home may be the same, but in other circumstances determination of the tax home will depend on such factors as whether employment is permanent (non-deductible), temporary (deductible) or indefinite (non-deductible) and whether there is a business justification for incurring duplicative costs.



The §199A Deduction: Pass-through entities, including sole proprietorships, LLC, partnerships and S-Corporations may claim a 20% deduction for qualified business income (QBI), which 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 or eliminated if income is derived from a “specified service business” (e.g., healthcare providers, accountants, investment advisors, attorneys, and other consultants) once the taxpayer’s taxable income exceeds \$160K (Single) or \$321K (MFJ).

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ADMINISTRATIVE ISSUES


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 hairstylist, your shoemaker, or even your brother-in-law. Instead, I invite you to [contact me](#) if you would like to discuss the impact of tax code provisions on your personal situation.



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!

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 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, scan or [secure upload](#) 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. 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 17th**. 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.

While some of you may be tempted to prepare your own returns using off-the-shelf software [oh my!] or engage a discount practitioner [OMG!], 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 [33 years!] and expertise may well be worth the cost of my services.



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; or, 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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