



2020 Tax Year Client Letter & Implications for 2021



Dear Client,

January 4, 2021

Welcome 2021! Here we are after experiencing a very strange 2020. Tax season is once again upon us. Again, we will ask you to sign our annual tax return engagement letter. Due to COVID-19 restrictions we have suspended our in-office meetings and will only schedule client appointments virtually this year. We will accept tax documents via our online portal, mail-ins, and drop-offs (if necessary). Please contact our office for further details.

Stimulus Check

Many of you received a "Stimulus Check" this year during the summer. In some instances, the check will be less than what you were owed. We can only determine any additional amount owed if you let us know the amount received. Your stimulus payment was accompanied with Form 1444, which confirms the amount you received. If you have Form 1444 please include it in your tax paperwork. **To ensure the status of your payment, please complete and sign the separate Form 1444 confirmation statement.**

Deductions

We still need to accumulate the information for your 1) medical, 2) state income and property tax, 3) mortgage interest, 4) charity and other deductions to apply the latest rules, and to complete your state tax returns. Additionally, there is a new deduction for charity amounts that does not require you to itemize, so please let us know of **all** cash contributions you have made in 2020.

Employee work related business expenses are no longer deductible on the Federal return, but we may still need the information for your state return. If you incur these types of expenses, you need to discuss the use of an accountable plan with your employer. With many folks working from home this year you may want to see if your employer has an accountable plan to reimburse you, tax-free, for the business use of your home.

Compliance

The IRS has added a new question on the very first line of the 2020 Form 1040 asking whether you have bought, sold, traded, or spent any virtual currency and we must ask you to verify this for us to avoid IRS penalties.

Finally, to prepare your return this year **we are required** to obtain all your W-2's, 1099's from retirement, interest, dividends and brokers, Forms 1095 for health insurance, bank Forms 1098 and any other official IRS documents.

Planning

- In the current tax era of greatly increased requirements to itemize deductions, a tax "bunching" strategy is recommended. The "bunching strategy" recognizes that the best tax deductions are obtained by putting deductions in one year rather than spreading them amongst several years. For example, in years where your charitable contributions are very low, hold off until the next year to catch up, then also pay the full amount of the next year's contributions in the "catch up" year to double your chances of itemizing. Similarly, few Americans receive medical deductions anymore, but if you incur a large

expense for example the deductible on surgery, then try to do all your other medical items in the same year, such as dental and vision exams, check-ups, etc.

- If you have a Health Savings Account, it is also highly recommended that you deposit some amount into it and leave a minimal balance at all times - the tax savings benefits are incredible, and this is one of the single best plans available.
- Every year we are told "I pay too much in taxes" or "I want some of the tax loopholes that rich people get". We can answer both statements with one answer. Rich people get no more tax deductions or "loopholes" than anyone else, they just take advantage of what is there to keep their taxes at a low legal level. The single greatest tax "loophole" that they use, which few average people use to its limit is the ability to defer nearly \$20,000 into a 401-K if your employer has one.
- It looks like the estate tax will become an issue again for many Americans. If the value of your home, life insurance, retirement and savings or investments is over \$1,000,000 it may be time again to do some advance planning after this tax season. Please call us to do this either virtually or via email.

Tax Year Due Date

The 2020 tax year filing deadline is **Thursday April 15, 2021**. To ensure we complete your return(s) by this deadline we encourage that you submit your tax data to us as soon as you have all tax year documentation compiled. We work on a first-in, first-out basis. Due to client volume and changing tax laws, even during tax season, we will be forced to place some returns on extension.

Miscellaneous

- New for this year, we will automate our individual, business, and trust tax return delivery process with SafeSends Returns. This is a simple, easy-to-use web-based system for securely reviewing and e-signing your tax year documentation. See our website (www.tpeterscpa.com/safesend) or the attached sheet for further details.
- Go to our website (www.tpeterscpa.com) to review/download our tax year client documents, our accounting and support services, or peruse our helpful tax resources.
- We encourage all our clients to utilize our online portal (www.tpeterscpa.com/client-portal) to share tax documentation with us – it is fast, easy and provides a secure alternative to faxing or e-mailing.
- Be advised that we provide invoice payment options, free of charge, via our website (www.tpeterscpa.com/pay-your-fee).

Thank you for your continued business each year.

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