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INCOME TAX PREPARATION SERVICES

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A Note on Covid and the Upcoming Tax Season

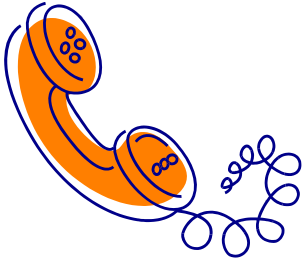
I hope that you all have been able to avoid the worst of Covid in 2021. Our office managed to operate smoothly last year despite the ever-changing mandates and updated procedures and operation rules for businesses. We appreciate all of our clients' willingness to go with the flow with the changes in our office as a result. This year we will continue to operate with the health and safety of our team, our clients, and our communities at the forefront of our practice, and you will still see some modifications to our normal operations.

We are continuing to request only two individuals come into the office for in person appointments. I only have two chairs in my office currently, and in addition we still have limited seating in the waiting room. Additionally we are asking clients to wait until about five minutes before your appointment time to come in to the office.

Masks will be required while in the office for an extended period of time, and for all in person tax appointments. If you are feeling unwell please let us know and we can reschedule your appointment or change your method of tax preparation (see below). I will continue to monitor myself for symptoms and should I need to isolate or quarantine I will work remotely when possible and continue to stay in contact regarding your return as best I can.

Like last year, I will be offering the following options for preparing your 2021 tax return:

- Drop-off/mail-in service: Feel free to mail-in or drop-off your tax information at my office and Megan or I will call or email you with any questions that I may have. I will also review your return with you upon completion. Your documents can be picked up and signed at my office, put in your secure portal, or mailed back to you at your expense.
- Up-load service: You may upload your tax documents using your secure portal. After finishing your return, your copy of the tax return will be available in the portal. Payments for my services can be made by calling my receptionist if you aren't able to pick up at the office.
- In-person appointments: I am seeing clients in my office by appointment only. In-person appointments are limited to 2 individuals. You will be required to wear a mask, and I will be wearing one as well. While we are doing our utmost to sanitize the office and prevent the spread of COVID-19, there is an inherent risk in any public place where people are present to contract the virus. Requesting an in-person appointment is your acknowledgment and acceptance of the risks associated with COVID-19 that you may be exposed to the virus regardless of the precautionary measures taken by our office.



**TAX SEASON
OFFICE HOURS**

**(JAN 24 TO APR
16TH)**

**MONDAY THROUGH
THURSDAY 9:00
AM TO 7:00 PM**

**FRIDAY 9:00 AM TO
5:00 PM**

**SATURDAY 9:00
AM TO 2:00 PM**

**CLOSED ON
SUNDAY**

***PLEASE NOTE THAT
I DO NOT TAKE
APPOINTMENTS ON
WEDNESDAYS TO
ALLOW ME TO CATCH
UP ON RETURNING
EMAILS/PHONE
CALLS TO CLIENTS AS
WELL AS WORK ON
DROP-OFF RETURNS**

Appointments

- Please call my receptionist to schedule your appointment as this is the fastest way to get it taken care of. I often cannot return phone calls for several hours when I have a full schedule of appointments each day.
- I see clients by appointment only for your convenience. If you prefer to drop off your information with the receptionist instead of making an appointment, I (or my assistant Megan) will need to call you at a later time to discuss your return with you. This policy will help keep the wait time to a minimum.
- **The turn around time for drop-offs can be up to three weeks (or longer if there is missing information) so you may want to consider that when deciding to do so.** Drop-offs that are received April 1, 2022 or later may need to be extended depending on current work load at that time.
- Also, it is very helpful if you will let the receptionist know when scheduling appointments if you will be bringing in more than one return, i.e. a child's return, or a parent's return, so that we will have enough time to complete those returns during the allotted appointment time. Otherwise, you may need to leave the extra returns to be completed later.

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CONTACT DEBBIE: Phone Ext-2 Email-dlpence@gmail.com

CONTACT MEGAN: Phone Ext-4 Email-assistant.dlpence@gmail.com

CONTACT RECEPTIONIST Phone Ext-0

Over the past couple of years I began using a secure online portal to upload your tax return instead of printing out a hard copy. Your three most current tax returns will remain available in your personal portal as long as you are an active client of mine. Besides your tax return, the portal can also be used to send and receive documents with sensitive information. I can no longer use email for this because of security reasons. If you need your portal to be reset, please call my assistant Megan and please allow up to 24 hours for reset requests.

During tax season getting ahold of me can sometimes be difficult. The fastest way to reach me is to leave a voicemail on my phone extension, but know that at times it may be several hours (or the next day if you call in the evening) before I am able get back to you. My assistant can also answer most questions if you cannot reach me and need more immediate assistance. Often times files are left at her desk so that she is able to assist me while I am seeing appointments in my office.

I appreciate the opportunity to assist with all of your accounting and tax needs and am grateful for the many referrals of new clients I receive each year. I look forward to meeting with each of you again this year!

-Debbie

2021 Tax Law Highlights

- **Increased Dependent Care Credit:** Expanded with the American Rescue Plan, for 2021 parents can receive a bigger credit on their return. See details further in the newsletter.
- **Changes to Earned Income Credit:** The qualifying age dropped from 25 to 19—except for some full time students—and the max age of 65 has been eliminated. The top credit for childless workers increased from \$543 to \$1502, and as was done last year, you can use your 2019 income if it comes out better for you than your 2021 income. The limit on investment income increased from \$3650 to \$10,000.
- **Charitable Donations:** This year you may again deduct up to \$300 in charitable donations made in cash, check, or credit card regardless if you itemize or not, but one change from last year is that married couples can EACH deduct that amount (for \$600 total). Goodwill/DAV donations are not included in this deduction. I will need proof of payment to include on your tax return.
- **Student Loans:** For years 2021-2025 student loans that are forgiven/canceled for less than what is owed will NOT fall under the canceled debt rules, and the forgiven amount will not be considered taxable income. Also through 2025 workers can exclude up to \$5250 of college loans paid by their employer from taxable wages.
- **College Tuition Credits:** The Tuition and Fees deduction was repealed beginning with 2021, while the phase-out thresholds for the Lifetime Learning credit and American Opportunity credit were increased to \$90,000 for single filers and \$180,000 joint.
- **FSA Rule Changes:** Businesses can either modify plans to allow unused 2021 funds to be used in 2022, or extend the grace period for using 2021 remaining funds up to 12 months. Check with your employer to see if they are taking part in this. Dependent care FSA contribution limits have been increased to \$10,500 (from \$5000).
- **Work From Home:** There is no deduction allowed for your Office in Home expenses if you are an employee, even though a lot of you have been working from home due to Covid. However, if you have KC earnings tax deducted from your paycheck you MAY be entitled to a refund if: You do not reside in the city limits of Kansas City AND you worked outside the city limits of Kansas City while you worked from home AND your employer continued to withhold KC earnings tax while you worked from home. I will need a letter from the employer with the name and phone number (or email address) of your supervisor/payroll department and the number of days worked outside of Kansas City, MO. An email from your boss will not suffice per KC rules.

Where's My Refund?

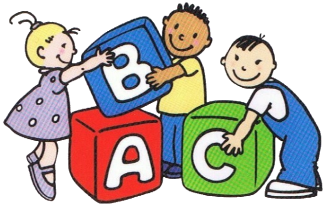
This is one of the most common questions we get asked every year! The short answer is: we don't know. Once we submit the returns electronically to the IRS and states and they are accepted, it is completely out of our control. Sometimes refunds get delayed due to the volume of submissions or lack of money, other times it's because your return was randomly selected for review. I have links posted on my website for you to check the status of your IRS, Kansas, and Missouri returns. You will need to have your EXACT refund amount, the social security number of the first person on your return, as well as your filing status. The IRS now has a separate refund tracker for amended returns as well.

2021 Stimulus Checks.

The stimulus checks are not taxable income. They were distributed using income amounts based on your most recently filed tax return (2019 or 2020) but are actually being calculated using your 2021 income total. The third and final stimulus deposit/check you received (\$1400 per adult and dependent on your return) in 2021 is being reconciled on this year's return. If you were entitled to the stimulus but didn't receive it, it will be accounted for when we do your tax return and if you received more than you were entitled to it will not have to be paid back to the IRS.

It is very important that the amount you give me to enter on your tax return is correct, otherwise it will significantly delay any refund. SEVERAL clients had this happen last year and ended up waiting months to receive their refunds while their return sat in a pile waiting to be manually reviewed by an IRS employee. Because of this, I am requiring that you include your letter from the US Treasury with details on your third stimulus total to complete the return.

Child and Dependent Care Credit



You could see a big change this year if you paid child care expenses and made under \$438,000 for joint returns. The credit is now worth 35-50% of incurred expenses (was 20-35%), and you can use up to \$8000 total cost for one child OR \$16,000 total cost if you have more than one child. In addition, the income allowed to take the full credit saw a major increase to \$125,000 with couples making up to \$438,000 receiving at least a partial credit.

To be eligible you must have receipts from your daycare, paid babysitter, or school before/after care program that include their name, total expenses/payments made, federal ID number or social security number, and address. The credit expansion was for 2021 only, and will revert to 2020 numbers after this year.

Child Tax Credit

The expansion of the Child Tax Credit was one of the biggest changes that came with the American Rescue Plan. It increased the credit from \$2000 to \$3600 for dependents five and under, and from \$2000 to \$3000 for dependents age six to seventeen for incomes under \$75,000 single, \$112,500 HOH, and \$150,000 joint. Incomes over \$150,000 will see a lesser phased out amount.

In July 2021 the IRS began PREPAYING half of taxpayers entitled amount of this credit in monthly installments, continuing through December 2021. Like the stimulus payments, these will be reconciled on your 2021 return. You will be receiving another letter from US Treasury if you received any payment amount for this. I will also be requiring that letter to complete your return. We do not want to put an incorrect amount on your return. Like the childcare credit, this was a one time for 2021 only expansion, and numbers and age limits for eligible dependents will revert to 2020 numbers.

Unlike the stimulus payments, any prepayment you received may have to be paid back. There are several factors to determine any possible paybacks. I will not be able to answer any questions about paybacks until I do your tax return.

If you did not receive or cannot find your US Treasury letters for your stimulus payment or prepayment of your child tax credit, you can create an ID.me account through the IRS website. You will need to verify your identity by providing a photo of an identity document such as a driver's license, state ID, or passport. You'll also need to take a selfie with a smartphone or a computer with a webcam. Go to [irs.gov](https://www.irs.gov) for more information.

2021 Retirement Changes

- Required minimum distributions are back for 2021!
- **Beginning January 1, 2020 the required minimum distribution age changed to 72.**
- IRA and Roth IRA Contributions: You have until April 15, 2022 to put money in your accounts and still have it be counted on your 2021 return. Those over age 72 can still make contributions if you otherwise qualify.
- Taxpayers having a baby or adopting, can now take a payout from their IRA or 401k of up to \$5000 (\$10,000 if joint) without incurring the 10% early withdraw penalty. Any amount distributed is still counted as income on your tax return.
- The Covid penalty waiver for early distributions from retirement accounts was only for 2020. Any distributions taken in 2021 are once again subject to the 10% early withdraw penalties.
- The SECURE Act tightened rules on how long you have to use funds from inherited IRAs and 401ks for accounts that were inherited after 1-1-2020. For many accounts all funds must be distributed within 10 years. There are exceptions for spouse, minor child, and the disabled.

Retirement Savings Contribution Limits

ACCOUNT	2021 LIMIT
401k, 403b, Thrift Savings Plan, most 457 plans	\$19500
Catch-up contributions for 401k, 403b, Thrift Savings Plan, most 457 plans for those 50 and over	\$6500
SIMPLE retirement accounts	\$13,500
Catch up contributions for SIMPLE for those 50 and over	\$3000
Traditional IRA and Roth IRA plans	\$6000
Catch-up contributions for IRAs for those 50 and over	\$1000



529 College Savings Info

- ⇒ Student loans—up to \$10,000 (lifetime amount) per child can be used tax free from your 529 plan to pay towards student loans. Recipients can not double dip and take the student loan interest deduction on their tax return AND also use 529 funds to payoff student loans.
- ⇒ Apprenticeships— Students can now use 529 funds to pay for supplies, equipment, fees, and textbooks related to any registered apprenticeship programs they take part in.
- ⇒ Grandparent owned 529 – Prior to the SECURE act funds used from a grandparent owned 529 plan would result in a reduction in student aid on a student’s FAFSA form. Now they can wait and use the funds to pay for post-graduation student loans and avoid having to count withdraws as income while the student is in school.

Business Updates and QBI Statements

- √ Business Meals: For 2021 business meals are 100% deductible, instead of the standard 50%.
- √ Entertainment Expenses: There is no longer a deduction for entertainment expenses or membership dues to any club organized for business, pleasure, recreation, or other social purpose. This includes buying tickets to sporting events through your business.
- √ Charitable Giving: This is another deduction that is up to 100% deductible in 2021, instead of 50%
- √ QBI Deduction: Partnerships, S-Corporations, Farmers, Trusts, Estates, and sole proprietorships are allowed to deduct 20% of business related income, subject to certain wage limits and exceptions. The remaining income is subject to normal rates. The 20% deduction is not allowed in computing adjusted gross income (AGI) but rather is allowed as a deduction reducing taxable income.
- √ The \$250,000 (\$500,000 joint) cap for allowable business losses is back for 2021 after being suspended for 2019 and 2020.
- √ Don't forget to keep track of your auto mileage! This could be a major deduction for some business owners that have to make frequent trips to see clients or travel long distance frequently for business operations. See below for 2021 and 2022 mileage rates. You must have detailed records that include dates, travel location, and beginning and ending mileage. For Schedule C clients I must have make, model, and year of the vehicle, beginning and ending mileage for the year, and the business mileage for the year. If you use more than one vehicle for business purposes, I need all of this information separately stated for each one.
- √ If you have income from a partnership or S-Corporation that provides you a K-1 for your personal return, I will need 2 things along with your K-1: 1. "Statement A-QBI Pass Through Entity Reporting",. This is a statement that shows your business' QBI deduction information and is required to be completed with the business tax return and 2. A basis worksheet. If I handle your business accounting and taxes I will have this on file. If I don't, whomever completes the business return is required to provide this to you, even if the K-1 shows a loss.

2021 STANDARD MILEAGE RATES:

BUSINESS: 56 CENTS PER MILE
MEDICAL: 16 CENTS PER MILE
CHARITABLE: 14 CENTS PER MILE



2022 STANDARD MILEAGE RATES:

BUSINESS: 58.5 CENTS PER MILE
MEDICAL: 16 CENTS PER MILE
CHARITABLE: 14 CENTS PER MILE

Following new IRS security requirements, I will no longer be able to send your tax return or related documents to any third party, either by email, fax, or USPS. This includes any banks or financial institutions, as well as any family members or friends. If you are needing a copy of your tax return I will be happy to upload your return to your secure online portal. You can easily access this on my website under the "Portal" tab. Please call if you have any questions. I also am no longer able to email tax returns at all per these requirements, even if it is to you.

IRS Scams!

Email: They use very official looking email and tell you that your tax payment was rejected or that you owe back taxes, often threatening legal action. If you receive an email like this, PLEASE do not click on any of the links and immediately delete it. Other email scams include attachments labeled as "Tax Account Transcript" from the sender "IRS Online". Once you open the attachment your computer becomes infected with malware.



Telephone: Callers claiming to be from the IRS contact you saying you owe money, which must be immediately paid via wire-transfer or with a prepaid debit card. If you refuse the caller often threatens arrest or suspension of the victim's business or driver's license. In many cases they have been able to manipulate the caller ID to look as if it really is the IRS calling. If you receive such a phone call the best thing to do is just hang up.

Mail: Scammers send letters claiming there has been a discrepancy on your return or that you owe a balance in connection to your Affordable Care Act credit. While the IRS does send out discrepancy notices, official notices with amounts due will be payable to "US Treasury" NOT "IRS". **If you receive a letter please contact my office before making any payments.**

IRS WILL NEVER MAKE INTIAL CONTACT WITH YOU BY WAY OF EMAIL OR PHONE CALLS! They will always first attempt to reach you with a letter in the mail. In addition you will never be asked to pay immediately without being given the opportunity to appeal the amount you owe, and **you will never be asked to pay with a debit or credit card over the phone.** You can report these incidents to the Treasury Inspector General for Tax Administration at 1-800-366-4484 or online at www.tigta.gov. You can also email a report to phishing@irs.gov.

Identity Theft and your Tax Return

In the past several years tax-related identity theft has been on the rise. This is when someone uses your social security number and other personal information to file a tax return and claim a fraudulent refund. Thieves will usually file these returns early in the tax season, so that when you file your legitimate return it prompts the IRS to send out a notice that multiple returns have been submitted with your SSN number. You will still be able to file your return, but there are extra steps we will have to take, and if you are due a refund be aware that it will take much longer than normal (usually around 6 months). According to www.irs.gov you should be alert to any letters or notices that state:

- More than one tax return was filed using your SSN;
- You owe additional tax, refund offset or have had collection actions taken against you for a year you did not file a tax return.
- IRS records indicate you received wages from an employer unknown to you

If you discover you are a victim of identity theft go online to identitytheft.gov to report it and get a personal recovery plan. I have several pamphlets in my office for your convenience should you need them.

As far as your tax return goes, per IRS, there is nothing that can be done to prevent your personal information from being used on a fraudulent return ahead of time. The IRS can only take corrective measures AFTER a fraudulent return has been filed unless you use the new program they have to get an ID Protection Pin. This prevents anyone else from using your information. Go to IRS.gov and search IP Pin and follow the instructions. This process must be done each year unless you have been a victim of fraud, in which case IRS will send you a new pin each year automatically.

WHAT TO BRING LIST

- NEW CLIENT? Copy of last year return, dates of birth for yourself, spouse and dependents
 - Estimated tax payments, if any
 - Wage and Tax statements (W-2)
 - Bank Interest Income (1099-INT)
 - Investment Interest Income (1099-INT)
 - Dividend Income (1099-DIV)
 - Pension Income (1099-R)
 - Unemployment Compensation (1099-G)
 - Social Security Benefits (SSA-1099)
 - Distributions from Profit-Sharing-401(k)- IRA's, etc. (1099-R)
 - Notice 6475—Economic Impact Payment (For Third Stimulus Payment)
 - Notice 6419—Advance Child Tax Credit
 - Commissions-Independent-Contractor-Self Employment income and expenses
 - Railroad Retirement Benefits (RRTA-1099)
 - Long Term Care Insurance Premiums (even if you don't itemize)
 - Rental property income and expenses
 - Any K-1's from Partnerships or S-Corp income. (Also need Statement A for QBI & Basis Worksheet)
 - Any K-1's from Trust or Estate Income
 - Did you sell any real estate; securities: stocks, mutual fund shares, etc? You will need:
 - Any 1099-B's from Brokerage accounts
 - ⇒ Date of sale and sales price
 - ⇒ Records of date of purchase and original cost
 - ⇒ Cost of improvements (real estate)
 - Did you sell your personal residence? You will most likely not have to report this, but please bring in:
 - ⇒ 1099-S Proceeds from Real Estate Transactions
 - ⇒ Closing statement from original purchase of home
 - ⇒ Closing statement from sale of home
 - ⇒ Records of any improvements
 - Did you buy a personal residence? Please bring in the closing statement for all transactions.
 - Charitable Contributions? Will need receipts.
 - Any HSA contributions made on your own (Not through your employer)
 - Educators -Classroom expenses incurred
 - IRA/SEP/ KEOGH contributions/rollovers/withdrawals
 - Gambling/Lottery Winnings (W2-G)
 - Child care expenses so you could work or go to school - need name, address, SSN, and full amount paid to each day care provider even if you did pre-tax
 - National Guard & Reserve Members - Travel expenses for overnight meetings more than 100 miles from home.
 - Jury pay - prizes - awards
 - Any other income from any other source!
 - Do you make payments on Student loans? Form (1098E)
 - Adoption expenses
 - Did you sell or trade in any business assets e.g., car, computer, rental property? You will need:
 - ⇒ Date of purchase and original cost
 - ⇒ Records of prior depreciation-for a vehicle you will need prior mileage information
 - ⇒ Any settlement statements
 - ⇒ Date of sale and amount sold for
 - Do you pay any higher education tuition for yourself, your spouse, or your dependents? I cannot process the return without a 1098-T. Bring book receipts separately.
 - Are there any contributions to or distributions from state tuition programs? Form (1099-Q)
 - Are you enrolled in the Health Insurance Marketplace? I will need Form 1095-A. I cannot process the return without this.
- To itemize your deductions, we will need:**
- Out of pocket medical expenses (must exceed 7.5% of income to help) Health Insurance counts **only if not paid through a pre-tax payroll deduction. Medical expenses include- doctor, dentist, hospitals, co-pays, prescriptions, X-rays, contacts, glasses, long-term care insurance, etc. Anything medical.**
 - Home mortgage interest (1098)
 - Real Estate/Personal property tax receipts
 - Charitable Donations