



FISCHER'S INCOME TAX SERVICE

711 Dandridge Drive

Fayetteville, NC 28303-2000

Telephone (910) 864-4114 Fax (910) 867-1757

e-mail: Inge - Taxpros2@aol.com Bill – bill@taxpros2.com

web site: www.taxpros2.com

2019 Year-End Tax Update



This is the last newsletter you will receive from us. We have decided it is time to retire and enjoy the rest of our days without responsibilities and be free to travel any time the mood strikes us. We have been in business for more than 40 years and it will be hard not to meet with some of you once a year, but preparing taxes is a serious business and we want to stop while we still have enough brain cells to know it is time to quit. Our last official day will be October 15, 2020. Thank you for the many years you trusted us with your business.

The rules for preparing 2019 taxes are pretty much the same as last year. We discussed many of the changes when we prepared your 2018 taxes. Most taxpayers will continue to have lower taxes, however many will see smaller refunds or possibly a balance due if withholding has not been adjusted. Form 1040 has been revised again. The half-page format with several optional schedules, depending on the needs of the taxpayer, has been replaced with a form that looks very similar to the 2017 full-page version. The 2019 version will still have some optional schedules as did last year's form.

Delayed Refunds

The ***PATH Act*** requires the IRS to hold refunds until mid-February for people claiming the Earned Income Tax Credit or the Additional Child Tax Credit. The IRS must hold the entire refund — even the portion not associated with these credits — until at least Feb. 15. This helps ensure that taxpayers get the refund they are owed by giving the agency more time to help detect and prevent fraud. The IRS always cautions taxpayers not to rely on getting a refund by a certain date, especially when making major purchases or paying bills. The IRS issues more than nine out of 10 refunds in less than 21 days. In addition, new identity theft and refund fraud safeguards put in place by the IRS and the states may mean some tax returns and refunds face additional review.

Charity

ALL deductions of any amount must have a receipt. Any individual contribution over \$250 must also have an acknowledgement letter from the charity, and the letter must be dated by the date we file your return. The letter should show the date and amount of any individual contribution over \$250 and should also state that no goods or services were received in return for the contribution.

If you donate used clothing or household goods and need help determining the fair market value of the items, the Salvation Army has a useful Donation Value Guide on their website <https://satruck.org/Home/DonationValueGuide>. We also recommend keeping a detailed list of all used clothing and household goods donations with associated values in the event your charitable contributions are audited by the IRS.

Increased "Due Diligence"

We, as paid tax preparers, are required to determine if someone is eligible for certain tax credits. The IRS has increased our "due diligence" requirements when a taxpayer has either an Earned Income Tax Credit, Child Tax Credit, American Opportunity Tax Credit (education credit), or claims Head of Household filing status. Please don't be offended if we ask probing questions or request documentation to see if you qualify for one of these credits. We can be fined \$530 per credit for not ascertaining eligibility requirements.

Immediate and Long-lasting Planning Tips

- If your employer offers a 401-k plan, America's #1 tax shelter continues to be deferring the maximum amount the IRS allows to your 401-k this and every year. Because employers are required by law to match a portion of your own deferral, this is a tax deduction with free money!
- Fewer Americans are now able to itemize deductions because of the huge benefit received from the increased standard deduction (\$24,800 for married couples, \$18,650 for heads of household, and \$12,400 for single or married filing separately taxpayers). That doesn't mean that you still can't do anything though. One simple tool to get the best "bang for your buck" would be to practice what we call bunching of charitable contributions. This trick guides you to make charitable contributions every other year so that you double up and get a deduction in some years without giving it up in others. Simply make your 2020 contributions as early as possible in 2020, and then make your 2021 contributions at the very end of 2020 so that you "bunch" all your amounts in one year to potentially get the best itemized deduction amount.
- If you are considering selling some old stock investments you might want to consider giving them directly to charity and avoiding writing checks to charity because you are able to deduct the full fair market value of the stock you give away in most cases.
- Taxpayers over 70½ years old and who have an IRA you should not be writing checks to charity, instead you should be using the "Direct IRA to charity" tool to avoid tax issues while qualifying for the required distribution rule.
- We continue to worry about unreported foreign investments, and we suggest you very carefully consider whether you have control over a foreign checking account or hold stock outside the United States. These must be reported or they essentially face 50% penalties each year.
- Additionally, this year the IRS and Congress have become very concerned about cryptocurrency (like Bitcoin) and you must be certain to report any of these transactions-there is even a new question on every tax return asking about it.
- Remember that your Social Security benefit is based on your highest 35 years of earnings, so taking some time away from the workforce, or aggressively writing off business expenses can really have a long-term negative effect on retirement.

Mortgage Interest

New rules have changed home mortgage interest deductions. So for any refinancing, equity line draws or new loans we must know if the money was spent to buy, build, or improve your personal residence or used for other purposes as only the interest on amounts used to buy, build, or improve your home are now deductible. We also must obtain Form 1098 from you when you pay mortgage interest. Additionally, we must obtain refinancing closing statements.

Roth IRA Conversions

You will continue to hear from lots of “experts” this year that you need to convert your retirement accounts to Roth IRAs. While there are a number of advantages to conversions, there are an equal number of disadvantages that carry some major tax consequences. Also, if your ROTH account loses value after the conversion you can no longer “reconvert” the amount back to your original IRA. Please do not convert your accounts in 2018 without coming in to see us for an appointment to discuss both the positives and negatives. ***All conversions for 2019 must be completed by December 31, 2019.***

Education Credits

You must have Form 1098-T to claim the American Opportunity Credit or Lifetime Learning Credit, credits for college tuition and books. If you or your child have not received Form 1098-T by the end of January, contact the school as it may be available only in an on-line format. For 2019 tax returns, you cannot claim a credit without this form.

Business Mileage Records

If you have a small business, farm, or rental property a deduction for business use of personal vehicles is allowed, however the IRS requires adequate records, such as a mileage log, to substantiate business use. Due to ***preparer penalties*** of up to **\$5,000.00** for understatement of tax liability, we will require all clients who claim business mileage to certify that they have adequate records. **If you cannot substantiate your vehicle business use, we may not be able to claim business mileage on your tax return.** A deduction for use of your vehicle as an employee is no longer available.

IRS Contacts and Tax Scams

If the Internal Revenue Service wants to contact you, they will **ONLY** do so by a letter delivered by the U.S. Postal Service. If you receive an e-mail or telephone call from someone claiming to be with the IRS it is a scam. Phone calls may threaten a lawsuit or demand immediate payment through Western Union or by a prepaid debit card (we received two such calls in one day). Do not be fooled! Delete the e-mail or hang up the phone. Never click on any links in an e-mail or divulge any personal information to one of these scammers, no matter how official the request may seem.

If the IRS does send you a letter, let us know immediately so we can help you determine if the request is valid and help compose a response, if needed.

Since the IRS will only contact you by mail, they must have your current mailing address. If you have a different mailing address than the one used on your last tax return, notify the IRS by submitting IRS Form 8822. The form and instructions are available at your local IRS office or on the internet at <https://www.irs.gov/pub/irs-pdf/f8822.pdf>. If you need assistance, please contact us.

Affordable Care Act

The penalty for not having health insurance has been eliminated. ***However, if you received a Form 1095-A, Health Insurance Marketplace Statement, we MUST have it to prepare your tax return.***

Gifts

When you give someone other than a charity more than \$15,000 in a calendar year a Gift Tax return is required. All gifts given to an individual during the year are added together to see if the \$15,000 threshold has been met. Even though no tax is paid with the Gift Tax return, you are still required to report the gift(s) to the IRS.

In Closing

Engagement Letter. We will again require all clients to agree with our Engagement Letter (letter of understanding) prior to preparing tax returns. The Engagement Letter explains what we will do for you and what you must do for us so we can properly prepare your return.

Document Scanning. Please bring all of your mortgage statements, brokerage statements, interest statements, and any other statement needed to prepare your tax return. We will scan these documents and keep them in your file. If you ever get a notice from the IRS, we will have the information on-hand to verify your tax return entries. The IRS now requires us to keep copies of certain documents. **Please bring any letters or notices you received from the IRS or state Department of Revenue during the year if you haven't previously contacted us about them.**

Payment for Services. To keep our costs and prices as low as possible **we accept only personal checks, money orders, or cash** for our services. Due to increased costs for software, supplies, and required education, some of our fees will increase. **We do not accept debit or credit cards. Please remember that Payment is due when you receive your return.**

Records Retention Policy. We will maintain file copies of tax returns we prepare for a period of at least five (5) years. After five years, our file copies will be destroyed.

Call When You Need Help! Remember, we are available throughout the year. Any time you receive a notice or letter from the IRS or State Department of Revenue, please bring, mail, or fax us a copy as soon as possible. We can only help you when we know about the notice or letter.

Please rest assured that we will utilize our best resources to once again provide you with timely, complete and accurate service while keeping your tax burden to the lowest legal amount.

Thank you again for your continued support.

Season's Greetings to you and your family during this holiday period.

Best wishes for a happy and prosperous 2020!

Inge & Bill Fischer