

December 30, 2020

Dear Client,

This year our letter is designed to give you the guidance for the information we need to prepare your 2020 individual income tax return. The year 2020 has been so challenging for everyone! We missed being able to see many of you when the pandemic hit and we were no longer able to have face to face appointments. Please understand we had your safety as our foremost concern.

Additionally, we will once again be following CDC procedures during this tax season. Our tax interviews may be different. If we aren't able to have face to face appointments, we have updated our technological resources where we will be able to have virtual interviews should we need to do so. Either way, we will need to schedule appointments times as we always have. For those who do not have technology available at home to have virtual visits, we will as in the past accept mail-ins, and drop-offs. As your accountants prepare your returns they will call you with any questions they may have.

This year, we are offering our tax packets online on our website. Please go to www.dow-tax.com and click on the "Info Center" tab. There you will find our Client Tax Worksheet and Engagement Letters for you to download and fill out. We ask that you please send both completed documents to us and if we do not have a current copy of your driver's license(s) on file, we ask that you provide us with a current copy or ask us to make a copy when you visit our office.

If you are receiving a mailed tax packet from us, there are several items included in your tax packet that need to be completed when you bring in your tax documents. Before we begin working on your tax return for 2020, **we ask you to review and sign the Engagement Letter enclosed which authorizes us to prepare your tax return(s).**

Stimulus Check

Most of you received a "Stimulus Check" this year during the summer. In many instances the check will be less than what you were owed and we can only determine any additional amount if you let us know the amount received. The IRS informed you of that amount with Notice 1444 which, if you received it, we need to reconcile. If you did not receive or keep the form, no problem, please just fill in the appropriate lines on the enclosed Tax Information Worksheet.

Deductions

Please complete the Tax Information Worksheet. We still need to accumulate the information on your 1) medical, 2) state income and property tax, 3) mortgage interest, 4) charity and other deductions in order 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.***

For those with business in states other than Oklahoma: Employee work related business expenses are no longer deductible on the Federal return, but we may still need the information for your state return, and if you incur a lot of 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 a simple tool to help is to see if your employer has an accountable plan to reimburse you, tax-free, for the business use of your home.

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

Planning

1. In the current tax era of greatly increased requirements to itemize deductions, a tax “bunching” strategy is absolutely mandatory. 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 in order to double your chances of itemizing. Similarly, few Americans receive medical deductions anymore, but if you incur a large expense for say, the deductible on surgery, then try to do all of your other medical items in the same year, such as dental and vision exams, check-ups, etc.
2. If you have a Health Savings Account it is also mandatory 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.
3. 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. If your employer has a 401-K and you are not putting the maximum deferral in it, there is no reason to even think about other tax planning ideas.
4. Check into your employer’s handbook to see what employer provided fringe benefits are available. Taxpayer’s are often surprised at the available benefits, or at our explanation of what some benefits really mean. We offer special “tax planning” sessions to go through the handbooks and your paycheck to see what is available and what your options may be, via appointment.
5. It looks like 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 either before the end of the year preferably, or after tax season. In either event please call us to do this either virtually or via email.

We are happy to meet with you throughout the year for tax planning, retirement and similar income tax related issues, and sincerely appreciate your continued business each year.

Sincerely,

Duncan, Onley & Watkins, PC