

December 30, 2021

Dear Client,

This year our letter is designed to give you guidance for the information we need to prepare your 2021 individual income tax return. The year 2021 has once again been a challenge for many of us! We will once again be following CDC procedures during this tax season. The good news is that we have several new options to work with you on your tax returns. If you aren't able to have a face-to-face appointment, we can offer phone or virtual interviews should we need to do so. Either way, we will need to schedule appointment times as we always have. For those who do not have technology available at home to have virtual visits, we still accept mail-ins, and drop-offs. We have a drop off slot (in the door to the left of our main office door). As your accountants prepare your returns, they will call you with any questions they may have.

As the year winds down and the tax reporting forms begin to arrive, there are a couple of new forms this year that most people will see, and which we need you to provide to us:

- a. IRS Letter 6475 for the stimulus check; and
- b. IRS Letter 6419 for those folks that received the advance child credit (Speaking of the advanced child credit, if you received it in advance, please understand that your refund this year may be greatly reduced!)

Please go to www.dow-tax.com and click on the "Info Center" tab to access our tax packets online.

There you will find our **Tax Information Worksheet** and **Engagement Letter(s)** for you to download and fill out. We ask that you please send both completed documents to us along with a current copy of your driver's license(s) 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 2021, **we ask you to review and sign the Engagement Letter enclosed which authorizes us to prepare your tax return(s).**

We still have a secure online tax file cabinet portal available, where you can upload your tax forms directly. If you did not utilize this feature last year, and wish to do so in 2021 / 2022, just be sure to call and request an email link. We are also able to provide secure e-Signature forms again this year if you are unable to come by the office in person.

In addition to the Tax Information Worksheet, we may still need the following, as it applies to you:

- Childcare costs, and the name, address, amount and ID # of the recipient
- Charitable donation recipients (especially all cash donations to qualified charities)
- Property tax paid on your home or other real property
- Estimated tax payments- amounts and dates paid
- Any letters you received from the IRS or state tax authorities
- A copy of your driver's license (and spouse's, if applicable)
- Our engagement letter

(over)

Again, IRS scrutiny of foreign accounts means that you need to be absolutely clear about any non-US Accounts or income so that we report it correctly.

Reporting for virtual currency is quite unique and we are seeing more and more businesses “dabbling” in virtual currency. If you or your company bought or sold virtual currency, or accepted it as payment, or used it to pay bills we need some quite detailed information. Please inform us if you have any of this activity in your business for 2021 because the penalties for failing to disclose it are intimidating!

If you have bought and/or sold a home in 2021 we need the closing statements on both purchases and sale.

Planning

1. In the current tax era of greatly increased requirements to itemize deductions, a tax “bunching” strategy can be tax advantageous. 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 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 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.
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. Taxpayers 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. Every year we are reminded how much we value your business, and we want to say once again, thank you! Please call if you have questions.

Sincerely,

Duncan, Onley & Watkins, PC