

**ROBERT ROWLAND CPA  
ANNUAL TAX LETTER**

**TAX YEAR 2019**

Welcome to the New Year and another tax filing. Hopefully, with a minimal effort on your part, we can get those returns accurately prepared and out of the way.

**Office in Chandler, Arizona** As a reminder, Karen and I a year ago moved both our home and our office to Chandler, Arizona to be closer to our grandchildren. With the move, most of my clients mail, fax or email their tax information to me and that worked very well. I do have a home office which is a comfortable setting for meeting with clients. Let me know if that is your desire and I will send you directions. When the tax returns are completed I will email them to you or if it is your preference, I can mail you a paper copy of the returns.

Again our **address for mail only** is 4960 S Gilbert Road, Suite 1-611, Chandler, AZ 85249. My phone numbers remain the same, 520-319-0077 (Fax 520-319-0076) My email address is Robert@RowlandTax.com

**Discount and Surcharges** Last tax season I had too few clients in January and February and too many clients in late March and April. For those of you who arrived early in the tax season, I sincerely thank you. To encourage taxpayers to not only be more organized but also to get their information to me early in the year I have the following incentives:

1. There will be a **\$25 surcharge** for any client who does not make an attempt to fill out the portions of the tax organizer that pertains to them. The tax organizer can be found on my website, RowlandTax.com, under the Tax Organizer tab.
2. There will be a **\$25 discount** for any client who has an appointment or otherwise gets me substantially all of their personal tax information prior to February 20<sup>th</sup>. I recognize that you may not have all the business K-1's or the final brokerage statements by February 20<sup>th</sup>, but you can provide to me everything else to qualify for this discount.
3. There will be a **\$25 surcharge** for any client who has an appointment or otherwise supplies to me the bulk of their information between March 20<sup>th</sup> and April 15<sup>th</sup> (and for extension returns between October 1<sup>st</sup> and October 15<sup>th</sup>).
4. There will be a **surcharge equal to 50% of the normal preparation fees** for clients who get to me their information between October 1<sup>st</sup> and October 15<sup>th</sup>.

**Password For Tax Returns Emailed:** As a reminder, the password to get into the tax returns emailed to you from this office is the first four letters of your last name followed by the last five numbers of your social security number (no caps and no spaces).

## **Changes for 2019**

Legislation in late December brought us extenders to several items:

- **Mortgage debt forgiveness:** Under a unique tax law provision, a discharge of qualified mortgage debt may be excluded from federal income tax, up to a limit of \$2 million. The tax exclusion is only available for debt on a principal residence.
- **Mortgage insurance premiums:** This provision allows taxpayers to deduct mortgage insurance premiums, subject to a phase-out beginning at \$100,000 of adjusted gross income (AGI). The deduction is available for payments for a principal residence and one other home, like a vacation home.
- **Medical deduction:** The recent massive tax legislation, the Tax Cuts and Jobs Act (TCJA), reduced the threshold for deducting medical expenses from 10% of AGI to 7.5%, but only for 2017 and 2018. The new law restores the lower 7.5%-of-AGI threshold through 2020. There is **no similar exclusion for the Arizona return** so all medical expenses are deductible on the Arizona return if deductions are itemized
- **Tuition-and-fees deduction:** The tuition-and-fees deduction, which may be claimed above-the-line in lieu of a higher education credit, is subject to a phase-out based on modified adjusted gross income (MAGI). The credit could be either \$4,000 or \$2,000, depending on MAGI, until the phase-out is complete.

The maximum amount of wages or self employed income subject to **Social Security taxes** was \$132,900.

The standard **business mileage rate for 2019 was 58 cents per mile**. Keep in mind there is no longer a business mileage deduction for employees. Rather an employee should submit mileage reports to their employer and get reimbursed.

Elimination of the ACA (Obamacare) **health insurance individual penalties** for not having the government dictated health insurance.

For **Arizona the standard deductions have been increased** to match the federal standard deductions of \$12,200 for a single taxpayer and \$24,400 for a married couple.

Taxpayers on their **Arizona return** will be entitled to a **deduction of 25% of the allowable charitable deductions** even if the taxpayer uses the standard deduction. This is in addition to the charitable credits previously allowed. So in all cases we are interested in your charitable deductions.

Taxpayers on the **Arizona return** will no longer be able to claim the **exemption deduction** for themselves and their dependents but instead are entitled to a **modest credit** for each dependent.

**Alimony** paid on divorces finalized after December 31, 2018 is no longer deductible nor taxable to the recipient spouse.

The IRS is introducing a version of the 1040 form for seniors called the **1040-SR** which the IRS claims is easier to read.

### **Changes for 2020**

With the passage of the SECURE act in late December the following were changed:

1. For taxpayers reaching age 70 ½ after 2019, **the age for required minimum distributions (RMD's)** for IRAs and 401(K) retirement plans has been pushed back from age 70 ½ to age **72**.
2. The **age cap** on contributions to traditional IRAs has been eliminated. You can now make contributions for as long as you are working.
3. **Part time workers** can now participate in an employer 401(K) retirement plan.
4. **No penalty** for retirement account withdrawals of up to **\$5,000 due to birth or adoption**. However, those distributions are still subject to the regular tax.

The maximum amount of wages or self employed income subject to **Social Security taxes** increases to \$137,700.

The **standard business mileage** rate for employers for 2020 should remain around 58 cents per mile. Keep in mind there is no business mileage deduction for employees. Rather an employee should submit mileage reports to their employer and get reimbursed.

**Arizona Credits** There are several Arizona credit (dollar for dollar reduction of the Arizona tax) for specific contributions. To qualify as a credit on the 2019 Arizona return the contribution need to be made either during the 2019 calendar year or by April 15, 2020. However the credit can only apply against the Arizona income tax liability. Any unused credit carries forward and can be applied in future years. The most popular credits are:

- 1 **Qualified charitable organizations.** Maximum amount is \$400 for a single person and \$800 for a married couple. For a list of qualifying organizations see <https://azdor.gov/tax-credits/contributions-qcos-and-qfcos>.
- 2 **Qualified Foster Care Organizations.** Maximum credit is \$500 for a single person and \$1,000 for a married couple. For a list of qualifying organizations see <https://azdor.gov/tax-credits/contributions-qcos-and-qfcos>

3 **Public school extracurricular activity.** Maximum credit is \$200 for a single person and \$400 for a married couple.

4 **Private school scholarship organization.** Maximum credit is \$1,107 for a single person and \$2,203 for a married couple. For a list of qualifying organizations see <https://azdor.gov/tax-credits/credits-contributions-certified-school-tuition-organizations>

**Dependents Documents** Unfortunately the IRS experiences a great amount of fraud in the area of dependents and the related credits that are available. As your tax preparer I am being required to get proof documents such as copies of the dependent's birth certificates and social security card.

**Partnership Investments in an IRA** Investment advisers at times have advised clients to invest their IRA money in limited partnerships. These investments are being sold as a way to increase returns, diversify the portfolio and increase liquidity (and are high commission products). The trap is that most limited partnerships operate businesses and borrow money, and most business and debt-financed income is subject to a flat 37% tax rate when received by an IRA. If you own limited partnership interests in your IRA check with the investment adviser to see if there is unrelated business income.

**Quarterly Estimate Tax Payments** The most common post-filing issue the IRS has with my clients is properly accounting for quarterly estimated tax payments. Please review your quarterly estimated tax payment records carefully and verify those payments by seeing if they cleared on your bank statement.

**Fees and Scope of Services** We will assist you in the preparation of the federal and state individual income tax returns based on the information which you provide. We will charge a reasonable fee generally based on my current fee schedule for returns and schedules. You can find that fee schedule on my website, RowlandTax.com. Extraordinary work on a return or any schedule or additional advice will be charged at an hourly rate

Fees and rates can change without notice. If you are unable to pay the fees in full when the return is completed, please make prior arrangements.

**Retainer - Audit Representation** My fees (to Arizona residents only) will include a one-time charge of 8% of the preparation fees as a nonrefundable retainer to cover representation in the audit, if any, of your 2019 individual income tax returns by the IRS or the state of Arizona. The retainer covers those services at no additional charge not only for the audit, but also, when reasonable, appeals within the IRS or the Arizona Department of Revenue and to the US or Arizona Tax Court. This retainer does not include the defense against any criminal investigation

or prosecution.

**Privacy Policy** For current and former clients, we do not disclose any nonpublic personal information obtained in the course of our practice except as required or permitted by law. In order to guard your nonpublic personal information, we maintain physical, electronic, and procedural safeguards that comply with our profession standards.

**Tax Planning** Tax planning may prove to be very helpful. However, due to time constraints, February, March and April are reserved for tax preparation and is not a good time for us to explore tax planning.

**Investment Advice** I am not a financial investment expert and not qualified to provide investment advice regarding the suitability of specific investments for clients. For that advice you need to turn to a competent and trusted financial advisor. And any brokerage statements and other information on financial investments being provided to me are solely for the orderly preparation of your income tax returns. Please keep in mind our services are not designed to and should not be relied upon to detect fraud, theft or illegal acts of investment advisors or others. Naturally if we do notice any such activity we will bring it to your attention.

**Gift Tax Returns** In addition to income taxes you may be required to file a gift tax return and in very rare circumstances pay gift taxes. A gift tax return generally needs to be filed if you made gifts of more than \$15,000 to any one individual during the calendar year. Please let me know if this is your situation.

**Estate Tax Planning** If the value of your assets (including life insurance) exceeds \$11,400,000 (\$5,200,000 for a single person) then upon you or your spouse's death there is the possibility of an estate tax. The estate tax is up to 40% of the fair market value of assets (and life insurance on your life) at the time of your death in excess of your debts and the \$11,400,000 exemption amount. There are several estate planning techniques legally available to reduce the possible estate tax such as lifetime gifts, charitable contributions, and trusts. Let me know if you want to explore estate tax planning.

**IRS Online Account Information** The IRS has expanded the app that allows you to view your account on line for:

1. Your payoff amount
2. The balance for each tax year for which you owe.
3. Up to 18 months of your payment history
4. To get a transcript (See <https://www.irs.gov/individuals/tax-return-transcript-types-and->



ways-to-order-them)

To do so you will need to register for an account. (See <https://www.irs.gov/individuals/secure-access-how-to-register-for-certain-online-self-help-tools>)

**IRA Planning** Generally we deal with two types of IRA's: traditional IRA's and ROTH IRA's. Because of the tax advantages, I encourage you to consider one or the other.

The tax advantage for a **traditional IRA** is a deduction on your tax return. For example if you are in the 25% tax bracket a \$5,000 contribution to a traditional IRA will result in a savings of \$1,250 in taxes. However, down to road when you withdraw any monies from the IRA it will be taxed. Not only is there a wide span from the time of the tax savings to the tax cost on withdrawal, but also one can hope that upon retirement their tax bracket will be lower. There are situations where taxpayers retire into a zero or minimal tax bracket. For them there is a tax savings during the years the monies were put into the account and little or no tax when the monies are withdrawn. However, IRA distributions upon retirement could possibly cause more of the Social Security benefits to be taxed.

**ROTH IRA's** tax advantage is generally the withdrawals are not taxed. This is not only the amounts contributed to the ROTH IRA but also any earnings in the account. The downside is when the monies are first put into the ROTH IRA there is no deduction. For example, if \$5,000 is put into the ROTH IRA (without a deduction) and it grows to \$15,000 before it is withdrawn from the account there are no taxes owed on the full \$15,000. In other words there is a permanent avoidance of taxes on the \$10,000 in earnings.

Contributions to both can be made within the year in question or by April 15<sup>th</sup> the next year. Contributions are subject to three limitations. First no more than \$6,000 per taxpayer per year can be contributed to either or a combination of the two. That limitation increases to \$7,000 for any taxpayer age 50 or older. Second, a taxpayer cannot contribute more than the amount of the wages and/or self employed profit made by either themselves or their spouses. Third, there are restrictions for taxpayers with income of more than \$122,000 (single) or \$193,000 (married filing jointly).

Both traditional IRA's and ROTH IRA's have potential penalties if the monies are withdrawn prior to age 59 1/2 .

Taxpayers must start taking required minimum distributions ("RMD") from the traditional IRA's starting in the year that a taxpayer reaches age 70 ½ . If not taken, there is a fairly stiff penalty. For that first year the RMD is 1/27.4 of the amount in the traditional IRA account(s). There is no RMD requirement for ROTH IRA's.

Monies can be "rolled over" from most retirement accounts to a traditional IRA without a tax cost. Also, monies can be "rolled over" from a traditional IRA to a ROTH IRA but in this case generally with a tax cost.

**Estate Plans** For those of you who have Wills and/or Trusts there are six questions worth asking each year.

1. Is there a change in the family situation?
2. Is there a significant change in the size of the estate?
3. Is newly acquired property properly titled?
4. Are beneficiary designations current?
5. Is there a business succession plan in case of death or disability?
6. Are estate documents reviewed annually?

**Planning for College Costs** No question colleges are now very expensive. In order to keep your children or grandchildren from having to be burdened by a substantial amount of student loan debt, you need to consider a college savings program starting when they are very young. For that program consider a qualified tuition program under code section 529 ("529 plan") There is at least one plan set up in every state and you are given a broad spectrum of investment possibilities. (see [www.savingforcollege.com](http://www.savingforcollege.com)) The tax advantage is that the income generated within the 529 plan will not be taxed if the monies are used for qualified education expenses. Unlike IRA's there is no deduction for contributions to a 529 plan (except an up to \$2,000 deduction on the Arizona return)

A most interesting characteristic is that the monies in the account can be withdrawn by the parent or grandparent setting up the account instead of going to the student in which case the income earned in the account is taxable and possibly subject to a 10% penalty.

**Planning for Social Security Benefits** Numerous questions arise when one heads into retirement. Is it better to take Social Security benefits at age 62? Age 66? Age 70? Is it better for the spouse to collect his or her own benefits or take 50% of the other spouse's benefit? Through the magic of the internet you can now find answers. The first step is to set up access to and review one's account at the Social Security Administration. That web address is [ssa.gov/retire/estimator.html](http://ssa.gov/retire/estimator.html)

Then analyze your various options using an on line calculator such as

[aarp.org/work/social-security/social-security-benefits-calculator.html](http://aarp.org/work/social-security/social-security-benefits-calculator.html)

[maximizemysocialsecurity.com](http://maximizemysocialsecurity.com) (\$40 annual fee)

[SocialSecuritySolutions.com](http://SocialSecuritySolutions.com) (various fees)

**Tax Records** We are often asked how long one needs to save tax records. The IRS has up to 3 years to audit your return; the state of Arizona 4 years. If one under-reports one's income by

more than 25% (including the misstatement of basis in stocks sold) the IRS audit period expands to 6 years. Also consider that for non-tax reasons the statute of limitations for litigation in which to be sued for a debt is up to 6 years. Therefore, we recommend that you keep supporting receipts and documents to your returns for at least 6 years. We also recommend that you keep copies of the tax returns indefinitely. Also, any documents to substantiate carryover items such as capital loss carryovers need to be kept for 6 years after the year the carryover is used up.

However there are documents which need to be saved for more than six years. Keep the receipts which back up any items being depreciated on a return since those are remain subject to audit. Also, keep all the receipts on the cost of stocks, bonds, real estate (including improvements), or any other investments which you still own. And also if you have a year which generates a net operating loss (NOL) and that NOL is being carried forward, keep all of the tax documents for that NOL year until 6 years after the NOL is used up.

Generally (as a backup to your records) we keep electronic copies of your tax returns and records for six years at which time they are destroyed. Keep in mind that we keep only limited copies, if any, of your W-2 forms, 1099 forms, or other supporting documents.

**Preliminary Estimate** For some of my clients I provide a preliminary estimate of their taxes at the time of our meeting. The completed returns can vary substantially from the preliminary estimate due to many factors including:

- a. **Use of estimates** on complex calculations such as the amount of taxable social security, Alternate Minimum Tax (AMT), phase out rules based on income, depreciation, and business vehicle expense calculations.
- b. **Additional information** provided after the preliminary estimate is made.
- c. **Calculation errors** that can occur when difficult computations are made rapidly and without the benefit of a double check.

### **Tax Scams**

Taxpayers should never provide personal information, financial or otherwise, to suspicious websites or strangers calling out of the blue.

Below are five things scammers often do that the real IRS would never do:

- Angrily demand immediate payment over the phone, nor will the agency call about taxes owed without first having mailed you a bill.
- Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.



- Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
- Require you to use a specific payment method for your taxes, such as a prepaid debit card.
- Ask for credit or debit card numbers over the phone.

If you think you are a victim of a scam call the IRS at 1-800-829-1040. There the IRS worker can help you determine the balance, if any, that you owe. If you know you don't owe taxes and want to assist the government in shutting the scams down, you can report the incident to the Treasury Inspector General for Tax Administration (TIGTA) at 1-800-366-4484.

- If you've been targeted by any scam, be sure to contact the Federal Trade Commission and use their FTC Complaint Assistant at [FTC.gov](https://www.ftc.gov). Please add "IRS Telephone Scam" to the comments of your complain

**Identity theft-related tax fraud** Efforts by the IRS to cut down identity thefts issue has proven to be successful. In 2015 there were 677,000 identity theft affidavits received from taxpayers. In 2018 that number decreased to 199,000. Still a large number. In this case the scammer one way or another has gotten hold of your social security number. He or she then files a fake tax return using your social security number and has a refund directly deposited to their bank account. Then when you file your return, it is rejected by the IRS. For you to then establish with the IRS that yours is the correct return requires you to call the IRS Identity Protection Specialized Unit at 1-800-908-4490 and also to file with the IRS the Identity Theft Affidavit, Form 14039. I strongly recommend that you fax to the IRS (fax number 855-807-5720) the affidavit, Form 14039, anytime your social security number has been compromised. That form can be found on the IRS website, [www.irs.gov](https://www.irs.gov). Fortunately you will not be held responsible for the money erroneously paid by the IRS to the scammer.

**Another scam** is that you get a call from someone claiming to be from the IRS. They tell you that the IRS has lost your return and asks you to mail them another copy. If you do so, they now have your personal information.

**Another scam** involves a bogus phone call from an IRS impersonator demanding payment for a non-existent tax they call the "federal student tax" and threatening to report the student to the police.