

Dear Tax Clients:

January, 2022

Congratulations—we've all made it through 2021, which once again, we're happier than usual to have behind us. With the turn of the calendar, it's time to prepare for your annual tax filing.

This year, you again have several methods to submit your tax information to us

- (1) Electronic file upload (Contact your preparer if you need assistance with our encrypted client portal. For security purposes, do NOT send as email attachments)
- (2) Front desk drop off
- (3) 24 hour drop box (Contact us for location)
- (4) U.S. mail

To begin your 2021 tax filing process, we have prepared the following documents for you:

#### **Engagement Letter**

An industry standard engagement letter, required to confirm our agreement of services to be rendered. A copy of the engagement letter must be signed and returned to our office with your tax documents.

#### **Questionnaire**

The enclosed questionnaire is designed to assist us in preparing your 2021 personal income tax returns. Please note any questions, significant changes or special situations you would like to bring to our attention in the space provided or on an attached note. If you find the enclosed questionnaire to be insufficient, you may use the basic organizer available at our website at [hartwigcpas.com](http://hartwigcpas.com). Or if you would like a comprehensive personalized client organizer please email or call to have a personalized organizer sent to you.

When returning your engagement letter and tax information, please be sure to include within your package all W-2s, 1099s, K-1's, and complete brokerage 1099 statement listing investment sales and other applicable tax documents. Itemized deductions may be listed in the organizer or on your own written list. Your documentation should include a detailed list of all estimated tax payments made. If you are waiting for any additional documents or information, please list the pending items.

To avoid a delay of your refunds, **it is especially important to confirm that your bank account number has not changed from last year or to enclose a voided check if you have a new account.**

#### **Summary of Tax Changes**

Not surprisingly, the continuation of the pandemic and the inauguration of a new President resulted in yet more tax legislation. Please see our firm website at [hartwigcpas.com](http://hartwigcpas.com) for a summary of both 2020 and 2021 legislation relevant to individual taxation. Please be aware these newsletters are not a comprehensive listing of all changes, but rather a summary of provisions of interest to a significant number of our individual tax clients. As always, you should consult us regarding the application of any particular provision to your unique tax situation.

### **Notable for Your 2021 Tax Return Preparation and Documents:**

#### **Stimulus Payments**

In March of 2021, a third stimulus payment was authorized and payments were made in March/April of 2021, again as an advance of a credit to be reconciled on these 2021 tax returns. These payments were \$1,400 per person, subject to reduction at certain income levels.



It is important that you report your spring 2021 stimulus payment on our enclosed questionnaire. Please confirm the exact amount, either by the IRS letter you received shortly after receiving the payment, by reviewing your monthly bank statements for the electronic deposit, or by the IRS form being sent this month. If you cannot locate the exact amount of your stimulus payments, please refer to “Get Your Economic Impact Payment Status” on the homepage at irs.gov for a new look-up tool using your on-line account.

### **Advance Child Tax Credit Payments**

In March legislation, Congress also authorized a one-year increase to the Child Tax Credit for 2021 only. Legislation provided that a portion of this increase would be paid in advance, monthly, from July to December via electronic deposit to parents’ bank accounts. These advance payments must be reconciled on this 2021 tax return, and thus you will need to provide us with the exact amount received in total advance payments. To confirm the amount, you have the same tools available as those discussed above for the stimulus payments.

One note, the advance payments of the Child Tax Credit do not work like the stimulus payments. The credit will be calculated based upon your 2021 income and dependents, with any advance payments subtracted from the total. If you received more in advance payments than your calculated credit, the excess will need to be repaid on this tax return.

### **Important Reminder Regarding Data Security**

Please do not e-mail sensitive information without encryption or passwords. **If you have documents containing personal information to send us, please send us an e-mail requesting that we send you a link to access our secure client portal, allowing you to send your documents to us in a protected and secure manner.** For security purposes, please do not simply “attach” any 1099 or W-2 to a regular email.

### **Direct Deposit of Refunds**

If you choose direct deposit of your tax refunds or electronic payment of your balance due, please confirm the last four digits of your account number in either the questionnaire or organizer. If you have changed your bank account since we filed your 2020 tax return or are choosing direct deposit for the first time, please include a voided check with your tax documents.

### **Itemized Deductions**

Since 2018, when the standard deduction doubled for federal purposes, many taxpayers are no longer itemizing deductions annually for federal purposes. However, state tax rules have not changed. For example, Wisconsin provides a credit which includes deductions for mortgage interest expense and charitable contributions which may be deductible at a lower level than for federal purposes. Furthermore, Wisconsin residents receive up to a \$300 credit for real estate taxes paid during the year. So, please continue to provide your traditional itemized deductions and we will report these to your advantage.

### **Affordable Care Act: Health Insurance Purchased through the Marketplace Exchange**

If you purchased health insurance through the Marketplace Exchange (at Healthcare.gov), please include Form 1095-A to assist us in calculating any eligible Premium Tax Credit or repayment required. This 1095-A will report any advance credits you received as well as coverage information for each member of your household.

### **Health Insurance Premiums**

If you have health insurance coverage through your employer it is likely that you are paying your share of health insurance premiums using pre-tax dollars, and thus are not also permitted a tax deduction.

If you are self-employed (including partners and S Corporation shareholders) your premiums may qualify for a subtraction adjustment. Be sure to list all of your health insurance premiums including health, dental, vision, prescription drug and Medicare Parts B & D and supplemental plans.

If you are retired, not employed, or otherwise paying your own health insurance premiums with after-tax dollars, you may be entitled to a deduction. While you may not reach the threshold for the federal deduction, Wisconsin does have a deduction for those paying premiums with after-tax dollars, including retirees. If you qualify for this deduction, please be sure to list all components of your medical insurance premiums including supplemental health insurance.

### **Long Term Care Insurance Premiums**

If you are paying long term care insurance premiums, please list these as well. As with medical insurance, you may not meet the threshold for deductibility on your Federal return, but may be eligible for a Wisconsin subtraction.

### **Charitable Contributions**

As noted on our Summary of Tax Changes, the CARES Act included a provision whereby ALL individual tax filers—not just those who itemize—are permitted a deduction up to \$300 of cash charitable contributions. For tax year 2021, this \$300 was increased to \$600 for those married filing jointly. Keep this in mind as you are gathering tax documents and if you are not itemizing, be sure to note your qualified charitable cash contributions to take advantage of this temporary provision which expires after 2021.

### **Required Documentation for Charitable Contributions**

We remind you of the strict documentation requirements for charitable deductions. You are required to have written communication from the charity in your hands, before the tax return is filed, for any charitable donation exceeding \$250 (typically a thank you letter). The letter or receipt must include the date and amount of the donation as well as the quid-pro-quo statement (*No goods or services were received in exchange for....*) For donations under \$250, a cancelled check (or access to), credit card receipt or written communication including the name of the organization, date and amount of the donation is sufficient to substantiate the deduction.

While you do not need to provide the letters to us (since we are not “auditing” your return), you do need to have the documentation in your files. Supplying us with a listing of your donations, with totals, is sufficient. Include additional detail for non-cash donations (date, name & address of organization and detailed description of property donated).

### **Foreign Bank Accounts**

Taxpayers with foreign financial accounts in excess of \$10,000 at any point during the year may be required to file either of two separate forms with the Federal government: IRS Form 8938 Statement of Specified Financial Assets or Fin Cen Report 114 with the Treasury Department. Failure to file required forms result in steep penalties. If you hold any foreign financial assets or are not sure whether you do, please be sure to discuss this with us and include appropriate information with your tax documents.

### **Wisconsin Use Tax**

A reminder to all Wisconsin residents that the use tax is the counterpart to the state sales tax, and is due on all purchases of taxable tangible personal property on which no sales tax was paid. For individuals, use tax is most commonly due on catalog and internet purchases made by Wisconsin residents from out-of-state companies with no Wisconsin ties. Under recent changes across the nation in sales tax collection, out-of-state retailers reaching certain thresholds are now required to collect Wisconsin sales tax on shipments to Wisconsin customers. Companies such as Amazon, eBay and Etsy, to name a few, are now collecting Wisconsin sales tax. You are only responsible for use tax if sales tax was not charged. The state requires taxpayers to remit any use tax due on their state income tax returns. The resulting penalties could far exceed an amount voluntarily paid with the original return.

There is a section in your questionnaire to list your total purchases subject to use tax, from which we will calculate the tax due. With the conclusion of the stadium tax assessment, the 2021 tax rates are 5.0% in Waukesha County and 5.5% in Milwaukee County.

### **Other Information**

Please include any additional information helpful to the preparation of your returns including the significant matters outlined within this letter and any other issues such as changes in address, filing status, dependency deductions or questions you may have. Please be sure to list your federal and state 2021 estimated tax payments and any changes you anticipate for 2022 which we should consider when calculating your 2022 estimates.

### **Notices**

If you have received any notices from the IRS or any state Department of Revenue this past year not previously shared with us, please include copies for our review.

### **Identity Theft**

Well documented in the news has been the problem of tax identity theft, typically where a scammer attempts to file a tax return under your social security number in an attempt to receive a refund. Obviously, your first step against this is to protect your social security number and personal information.

In past years, if you were a victim of identity theft, you received an Identity Protection PIN to e-file your return, to avoid a second identity theft. Your return cannot be e-filed without this number. New for 2021, both the IRS and Wisconsin Department of Revenue have made their (separate) identity protection programs available to ALL taxpayers.

To receive an IP PIN for Federal purposes, visit [irs.gov](https://irs.gov) and visit the page (File/Individuals) "Get An Identity Protection PIN". Once enrolled, they will automatically send you your IP PIN every January. For the state program, set up a personal "My Tax Account" and request the Identity Protection PIN within your account. Note, the state program requires advance registration and snail mail confirmation, so we suggest you register early. Requesting an IP PIN for Wisconsin is an annual process (they will not automatically send a new IP PIN next year).

### **IRS Scam e-mails and Phone Calls:**

We remind you that the IRS does not send out unsolicited emails requesting detailed personal information. Most taxpayers are aware of the scam emails and will not reply to them. Newer to the scene are the scam phone calls, often threatening the caller with sending police to your door or lawsuits. Rest assured, you would have received MANY letters from the IRS before they would call and exercise their taxing authority. If you receive either a confusing phone call, email or letter and would like assistance determining legitimacy, please do NOT give ANY information over the phone. Rather, take a phone number and call us. We will be happy to assist you. Unfortunately, some people are falling victim to the scammers, which makes the fraudsters' efforts profitable. Protect yourself and don't fall victim.

### **A Note Regarding Extensions**

While individual tax returns are due on April 15<sup>th</sup>, situations may occur making it difficult to meet the early deadline, including the volume of documents arriving just before the deadline. While each return is important to us, please understand we are only human and may not be able to complete your return on time, especially where documents have been provided in late March or even April. An extension does not flag your return nor increase your chance of audit; it simply provides six additional months to file the tax returns. An extension to file a return is not an extension to pay the tax, and thus an estimate of tax due, including first quarter 2022 estimated tax payments, must be calculated and paid by April 15<sup>th</sup>. The best protection preventing an unwanted extension is to provide us with your complete tax package early.

We thank you for your continued business. Please return your completed package as soon as possible and contact us if you have any questions regarding this packet. We look forward to serving you!

Sincerely,

Hartwig, Norman & Shannon LLP