DESERT EDGE
TAX & ACCOUNTING

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Greetings!

Our world is still topsy turvy!

Even during uncertain times, our goal is always to provide clients with the most accurate tax returns and best tax situations possible. Please be patient with us as we work toward this goal in 2021.

Covid-19 will affect both 2020 and 2021 tax returns. Please be aware that more documentation, forms, and information will be needed this year to correctly complete your returns. Unfortunately, the additional tax complexity and requirements brought on by Covid-19 related government programs may increase your tax preparation fees. Below are some items to be aware of.

1. We need to know how much you received for both stimulus checks. If you have the IRS letter that was sent to you, please send it in with your documents. We will need to reconcile the stimulus amounts on your tax returns.
2. Unemployment benefits! This one is especially important. If you received unemployment benefits, they are taxable to you. You must report unemployment earnings even if you do not receive the 1099-G form that is supposed to be sent to you. Not properly reporting unemployment earnings may result is steep fines and penalties.
3. Retirement, 401(k)s, IRAs, etc. There were several temporary and permanent changes made to the way that contributions and distributions to and from these accounts are handled for tax purposes. We will be asking for clarifying information if you made any contributions or received distributions from affected retirements accounts that may impact your tax situations.
4. Due to the increase of the standard deduction a few year ago, most taxpayers have not been able to benefit on their federal return from some of their charitable contributions. Starting in 2020, the IRS is allowing taxpayers to take up to a $300 deduction for cash (not goods) contributions made to charitable organizations, even if the taxpayer is unable to itemize on their return.
5. If you worked remotely in a state different than your normal place of work, you may be required to state tax returns in multiple states. If you were in this situation in 2020, please mention it so that we can determine your filing requirements in each state.
6. A change in tax withholding requirements in 2020 permitted your employer to elect to not withhold social security taxes (also known as FICA taxes) from your wages between September 1 and December 31, 2020. If you and your employer made this election, please include this fact in your questionnaire as it will have tax planning consequences for you in 2021.

7. If you received interest on your tax refund in 2020, the interest is taxable. You should receive a 1099-INT form from IRS if they paid you more than $10 in interest. However, even if you do not receive this form, or the interest paid to you is less than $10, you are still required to report the amount of interest paid to you on your tax return.
8. The minimum penalty for filing a late tax return has increased from $215 to $435. If you are unable to file your returns by the original due date, typically April 15th, you should file an extension form to extend your filing due date to October 15, 2021. Please note that filing an extension only extends the time you must file your return. If you will have a tax liability for the year, you are still required to pay by the original due date of the return. There is no extension to pay, only an extension to file. If you need an extension to file, please contact the office and we can file one for you. If you think you may owe but will not be able to file by the original due date, please let us know and we may be able to do an estimate for you and help you make an estimated tax payment to avoid some late payment penalties.

Process Changes for 2020

No "Sit-Down" Appointments

Due to safety issues, we will not be doing "In Office Sit-Down" appointments. We have many convenient ways to exchange information and communicate with you about your tax year. You can drop off your documents at our office, scan and upload to our portal, or fax/mail your documents to us. We do not recommend emailing your tax documents to us as email is not generally considered a secure communication method. We will contact you by phone, email, or Zoom to discuss your return or request additional information. Your return will be prepared and reviewed for accuracy and you will be notified once your return is complete and ready for signing. At this point you can stop by the office to pick up and sign your return or we can upload your returns to our secure portal for you to review and sign. To make the tax preparation process as convenient as possible for our clients, we will be offering the ability to electronically sign most tax forms this year.

Engagement Letter

This year we are requiring all clients to sign an engagement letter before we begin preparing a tax return or before an extension is filed. The engagement letter is an important document that communicates the rights and responsibilities and relationship between a firm and its client. The engagement letter can be signed when dropping off your tax documents or we can send an engagement letter for electronic signature if you are providing your documents via our portal or fax/mail.

New Portal/Mobile App

While our current portal will remain active this year, we are moving to a new portal system and prefer clients to use the new portal. The new portal offers many great features including a mobile app that allows you to get alerts and scan documents from your phone, electronically sign documents and pay your preparation fees. Soon we will be sending out invites to everyone to the new portal. If you do not receive your invite or need any help navigating the new portal, please call the office.

Virtual/Phone Appointments

Our office hours for tax season are Monday through Friday 9am-5pm for virtual/phone meetings. Saturday and evening virtual/phone meetings and drop offs will also be available by request.

For your convenience, your documents can be uploaded to our secure portal (can be accessed through our website), mailed to our office, faxed to 623-935-2109, or dropped off at our office during normal business hours. If you normally email your documents, please consider using another option as email is one of the least secure ways to send your documents.

Drop offs are welcome any time the office is open. Please note that when dropping off your documents we will ask you to verify your contact information as well as sign an engagement letter and fill out the questionnaire included in this packet. To save time, please provide the enclosed forms filled out when sending or delivering your information.

Notice of Required Documentation

The IRS is putting pressure on tax preparers to collect documentation to support claims that are made by the taxpayer. Paid tax preparers are subject to significant fines if required documentation is not collected from the taxpayer or specific questions are not asked of the taxpayer. This means that depending on your individual tax situation, you as the taxpayer may be required to provide us with additional documentation to prepare your return. When claiming the following credits or filing status your preparer will ask for additional documentation to be provided.

Qualified Dependent, Child Tax Credit & Earned Income Credit-In order to claim a dependent on a tax return, the taxpayer must provide documentation to prove the dependent's relationship to the taxpayer and prove the dependent lived with the taxpayer. The following documents are some that can be used for this proof.

Relationship

- Birth Certificate
- Adoption papers
- Agency placement letters
- Baptismal certificate

Residency (Documents must have dependent's name and taxpayer's address)

- School Records
- Medical Records
- Agency placement letters
- Documents that contain the dependent's name and the taxpayer's address.

Head of Household – The IRS requires documentation to prove eligibility for the Head of Household filing status. The requirements to file head of household are;

- Be considered unmarried for the tax year.
- Claim a qualifying person as your dependent.
- Provide more than 50% of the financial support for the household.

If you would like to claim the Head of Household status on your tax return, you must provide us with the following documents to prove your eligibility. In addition to the documentation required to prove dependency (listed in section above) documents from the list below can be used to provide proof that the taxpayer provided more than 50% financial support for the home.

- Rent receipts
- Mortgage interest statements
- Property tax payments
- Utility and other household bills

Please keep in mind that all documents must be in the taxpayer's name. We will not file a tax return claiming the Head of Household filing status until proper documentation has been provided to support eligibility.

American Opportunity Tax Credit (AOTC-Education Credit)-In order to take this credit, the taxpayer must provide a copy of the 1098-T form and a financial account transcript from the school or college. The IRS requires the taxpayer maintain receipts for educational materials and supplies that were not purchased from the school or college that are reported on the tax return.

Service Requirements

In addition to the documentation required to claim certain credits and filing statuses, we require certain documents and our fee to be received before we can finish your return. The following is a list of some of the documents that are/may be required to complete your return:

- **Engagement Letter**-All clients will be given the engagement letter to sign before we will begin tax preparation services.
- **E-file signature authorization (Form 8879)-**All clients electronically filing their return will be provided form 8879 to sign before their return can be filed.
- **Each Dependent Child's Documentation**-Social security card, proof of address (Medical bill, school record, or anything with the child's name and address)
- **Release of Claim to Exemption (Form 8332)-**Non-custodial parents to claim a child.

Payments

All outstanding invoices on your account from prior years must be paid before we will begin work on your current year return. For your convenience, we accept cash, check, e-check and cred/debit cards.

This Packet

The following pages in this packet contain a questionnaire and mini organizer. To save time, please fill out the attached questionnaire and include it with when dropping off, mailing, faxing, or uploading your tax documents. We look forward to hearing from you soon!

Sincerely,

The Desert Edge Tax & Accounting Team