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Dear Client:

Happy New Year **2021**; good riddance 2020!! We are now all very familiar with the new tax legislation which brought significant changes when we filed our 2019 tax returns. These provisions will be in effect until December 31, 2025. However, due to the Covid pandemic, there are several new tax laws and regulations. I am providing **brief highlights and details** in the "What's Important for 2020 & 2021" section which follows on the next pages. However, I have **posted a longer and more detailed discussion on my website under the Client's Corner** as there are just too many details to fit in this letter. Also, **posted on my website are additional important tax forms, tax code updates, tax strategies, and pertinent regulatory information. The website will be helpful for more details of the tax legislation passed for 2020 and 2021.**

Due to the Covid pandemic, I will not be providing in-person meetings this year. I will gladly use FaceTime for visual conferences or the old reliable telephone (I have a landline) to those who wish to discuss tax issues.

Tax documentation should be mailed to my post office box address or use my dropbox. The address for my **library-style dropbox has CHANGED to 19 Churchill Road, Newtown** in the back of the building.

Below, are also some of the **important tax strategies and compliance issues** that should be of concern to you. Please take a few minutes to read this information. It will help expedite the preparation of your 2020 income tax return.

I have enclosed your **personalized organizer/questionnaire** for your use as a guide in gathering information for preparation of your income tax return. Many **questionnaires** are not being returned or returned unanswered. I need these questions answered to accurately prepare and file your returns. If your questionnaire is not completed, I will need to return it to you prior to my starting work on your return(s). This organizer is used to provide detailed information of your income and expenses/deductions for the year as well as other pertinent data as it relates to your individual situation. **I have found the organizer to be a valuable tool for focusing attention on your unique needs.**

.....
Please provide me with copies of the following information (When possible, I have included the 2019 information for your reference):

- ✓ Form(s) W-2
- ✓ Schedule(s) K-1 showing income or loss from partnerships, S corporations, estates, or trusts
- ✓ Copies of compensation or pension documentation (Form 1099-NEC or 1099-R for example)
- ✓ Form(s) 1099 or statements reporting dividends and interest income
- ✓ Brokerage statements showing transactions for stocks, bonds, etc.
- ✓ Form(s) 1098 reporting interest paid
- ✓ Copies of closing statements regarding the sale, refinancing, or purchase of real property

What's Important for 2020 and 2021:

- **2020 RECOVERY REBATE:** Individual taxpayers may be eligible for a rebate of up to \$1,200 (\$2,400 MFJ); in addition, there is a \$500 per qualifying child (dependent child under age 17). The rebate was **paid out in advance** based on taxpayer's 2018 or 2019 return. However, if the taxpayer did not receive the proper rebate or their income is lower in 2020, then the amount will be reconciled on the 2020 return. I will need **Form 1444** which shows the recipient's payment amount from the IRS for the reconciliation.
- **CHARITABLE CONTRIBUTIONS: Nonitemizers** may deduct up to **\$300 of cash contributions**; even though the taxpayer uses the standard deduction. For itemizers, the limitation on charitable deductions is increased from 60 to 100% of adjusted gross income. Presently, these changes will also be available for 2020 and 2021 only.
- **REQUIRED MINIMUM DISTRIBUTIONS (RMDs):** The RMD rules are **WAIVED** for distributions from defined contribution plans and IRAs. NO distribution is required for 2020.
- **REMINDER of HIGHLIGHTS OF CHANGES FROM 2017 TAX ACT FOR 2020 INDIVIDUAL TAX RETURNS:**
 - A top individual tax rate of 37 percent (lowered from 39.5%);
 - A provision allowing taxpayers to aggregate (1) local property and vehicle taxes, and (2) state and local income taxes (or sales taxes in lieu of income taxes) toward a **maximum of ONLY \$10,000 itemized deduction for state and local taxes**;
 - Four changes to the **CHILD TAX CREDIT**: (1) increased to a \$2,000 credit, but also an increase in the refundable portion to \$1,400; (2) retaining the current maximum age of 16 for eligibility; (3) \$500 credit for those over 16 and still dependent of taxpayer; and (4) the credit begins to phaseout at the AGI (adjusted gross income) threshold amount of \$400,000 for joint filers and \$240,000 for all others;
 - a **repeal of the personal exemption deduction** and an **increase in the standard deduction amounts** to \$24,800 for joint filers and surviving spouses, \$18,650 for heads of household, and \$12,400 for unmarried taxpayers and married filing separately (additional amounts for the elderly (65 and older) and blind are retained);
 - a **repeal of miscellaneous itemized deductions** subject to the 2 percent of adjusted gross income floor;
 - an **increase in the alternative minimum tax (AMT) exemption** amounts and the adjusted gross income thresholds at which the exemption amount begins to phase out;
 - A lowered \$750,000 limit on the loan amount for which a mortgage interest deduction can be claimed by individuals, with existing loans grandfathered;
 - Repeal of the deduction for alimony paid and corresponding inclusion in income by the recipient, effective for divorces beginning in 2019. Alimony paid under agreement entered into prior to 2019 is generally grandfathered as a tax deduction.
- **INDIVIDUAL MANDATE: The individual mandate REPEAL went into effect starting January 1, 2019.** So, tax preparers no longer have to verify that an individual maintains **minimum essential health care coverage** for themselves and their dependents for 2020. Most taxpayers will still receive either Form 1095-B and/or Form 1095-C. Those covered **by the health exchange will still receive Form 1095-A.** But please continue to **Provide one of these forms 1095-A, 1095-B, or 1095-C**, since I still use the Form 1095s for another purpose such as to document that children are dependents for the child credit. So I would still appreciate a copy for my records.

- **NO CHANGE TO PREMIUM ASSISTANCE CREDIT:** This credit is only available to those individuals who purchased their health insurance from the **Exchange**. The credit can be used to subsidize monthly premiums or to receive as a tax credit when filing your tax return. Credit is based on a sliding scale of taxpayer's household income. Exchanges will issue **Form 1095-A** to report taxpayer coverage and advance credit payments used to pay health insurance premiums. **I MUST receive this form.**
- **NO IRA CHANGES for 2020:** The maximum allowable IRA contribution will be **\$6,000** (**\$7,000** for taxpayers 50 or older) for 2020. There is no change for 2021. This IRA contribution is applicable for Roth IRAs, traditional IRAs, and nondeductible IRAs. Those wishing to contribute to a ROTH IRA are subject to income limitations. You have until April 15, 2021 to make a 2020 contribution.
- **NO CHANGES FOR 2020 & 2021 PENSION CONTRIBUTIONS:** The **employee elective deferral for 401(K) plans** will be **\$19,500**; employees age 50/older an additional \$6,500 deferral/total of \$26,000). Regardless, taxpayers should make sure that they contribute at least up to the employer match. The ceiling on **SIMPLE PLANS** is **\$13,500** (employees age 50/older can put in an additional \$3,000/total of \$16,500).
- **FILING DATES FOR BUSINESS RETURNS: Partnerships (LLC) and S-Corporations** are now required to file their federal income tax returns by the **due date of March 15th**. Calendar-year **C corporations** now have an extra month to file their federal income tax returns. The returns are **due by April 15th**.
- **UPDATED BUSINESS MILEAGE RATES for 2020/2021:** The standard mileage rate for business driving is **57.5¢ (2020)** which decreases from 58¢ (2019). The rate for **2021 will decrease to 56¢**. The medical mileage rate also decreases to 17¢ for 2020 from 20¢ a mile (2019). The medical mileage rate for 2021 is 16¢. The rate for charitable driving will stay at 14¢ because the amount is determined by Congress, not by the IRS.
- **EDUCATION CREDITS OR TUITION DEDUCTION REQUIREMENT:** Taxpayers will need **Form 1098-T** from their student's educational institution before claiming the education credit or tuition deduction on their return. This is a **new documentation requirement** to claim either the American Opportunity Tax credit, Lifetime Learning Credit or the Tuition and Fees Deduction.
- **CT Pass-Thru Entity Tax (PET):** The Pass-Thru Entities (PTE) include S-corporations, partnerships, limited partnerships, and limited liability companies (LLCs). The CT PET is intended to shift the tax on PTE income from the owner to the PTE; therefore, circumventing the limitation on state and local taxes on the owner's personal return. The PTE tax imposes a 6.99% entity-level income tax. Owners of PTEs are entitled to a credit against their Connecticut personal income tax equal to 87.5% of the PTE owner's pro rata share of the PTE-level tax paid. PTEs subject to the Connecticut PTE-level tax are **required to make quarterly estimated tax payments** by their PTE.
- **FBAR (FinCEN Form 114):** If you own (or have signatory authority) foreign financial accounts exceeding an aggregate value of **\$10,000** at any time during the year, you are required to file FinCen Form 114 (FBAR/Report of Foreign Bank and Financial Accounts). The **filing date is April 15th**. Please signify on the organizer if you require this filing.
- **BUSINESS OWNERS:** It is important to **file Form 1099-NEC** for all your **independent contractors** so that you will not be penalized. The IRS is trying to eliminate non-reporting of income. All business returns now ask if your business made any payments that required them to file Form 1099 (Yes or No?). If "Yes", did or will the business file all required Form 1099s (Yes or No?). For 2020, filing Form 1099 is due January 31, 2021. **Form 1099-NEC replaces Form 1099-MISC.**

- **ESTATE and GIFT TAX CHANGES: INCREASE for 2020 Federal estate and gift tax exemption to \$11.58 million dollars (\$11.7M for 2021).** Also, the “**portability**” of exemptions between spouses has also been retained. However, in order to use the portability of the estate tax exemption, the IRS requires the executor of the deceased spouse to file a Federal Estate Tax Return (FORM 706). The **annual gift tax exclusion for 2020 is \$15,000 per donee; the same for 2021.** **Connecticut’s lifetime estate and gift tax exemption is \$5.1 million dollars in 2020 (\$7.1M for 2021).**
- **“KIDDIE TAX”:** There was a change to rates that children’s unearned income will be taxed in 2020 compared to 2019. Net unearned taxable income for children (above \$2,200) will now be taxed according to the brackets applicable **to parent’s rate rather than the trust’s rates.** These trust brackets which reach higher tax rates very quickly were considered too onerous. But parents should consider **Section 529 plans for college savings.** Taxpayers may deduct up to \$10,000 annually on their Connecticut personal returns for contributions to the **Connecticut Section 529 Plan (CHET).** This deduction is only available for investments in CHET 529 Plans. Any excess contribution can be carried over to the next year. Earnings from all Section 529 plans are not subject to Federal or State income tax when withdrawals are used for college tuition.
- **The SECURE ACT:** Some of the highlights of the provisions that effect IRA and retirement plans. include:
 - **Repeals the prohibition on contributions** to a traditional Individual Retirement Account (IRA) by an individual **who has reached age 70-1/2.** But contributions can be made only if the taxpayer has **earned income.**
 - Permits **penalty-free withdrawals from retirement plans for expenses related to the birth of a child or adoption**
 - **Increases from 70-1/2 to 72 the age for mandatory distributions** from retirement plans.
 - **Modifies required minimum distribution (RMD) rules** with respect to defined contribution plans and IRA balances upon the death of the account holder. **All distributions must be made by the end of the 10th year after death** for distributions made to **non-spouse designated beneficiaries**
 - **QUALIFIED RETIREMENT PLANS:** Retroactive adoption. Allows employers to treat retirement plans adopted before the due date of the tax return as adopted as of the last day of the tax year.
 - The ability to use a stretch IRA was eliminated by repeal of the life expectancy for a majority of beneficiaries. Life expectancy has been replaced with a ten-year distribution period. Only **eligible designated beneficiaries** including surviving spouse, minor child of participant/owner, disabled/chronically ill beneficiaries and beneficiaries less than ten years younger than the deceased IRA account holder may use the life expectancy tables. If spouse is sole designated beneficiary, spouse can use the longer of spouse’s life expectancy or deceased spouse’s life expectancy (rollover is still usually the best approach). If beneficiary is not spouse but is an eligible designated beneficiary, the life expectancy of beneficiary can be used but ten-year rule then applies to their successor beneficiary. If beneficiary is not an eligible designated beneficiary, then ten-year rule applies.
- **IDENTITY VERIFICATION:** Tax-related identity theft has been a difficult problem for the IRS as well as state taxing authorities. The new identity verification steps to combat the filing of fraudulent returns have worked very well. I will require you to **update your drivers’ licenses information on the taxpayer information worksheet** prior to filing your individual returns. **No returns will be accepted without this updated verification step.**

I wish you the best in 2021.

Jeff A. Bernstein CPA

Jeffrey A. Bernstein CPA/PFS

PERSONAL INFORMATION

	TAXPAYER	SPOUSE
Last name.....	_____	_____
First name	_____	_____
Middle initial and suffix	MI _____ Suffix _____	MI _____ Suffix _____
Social security number	_____	_____
Occupation.....	_____	_____
Work phone/extension	_____	_____
Cell phone	_____	_____
E-mail address.....	_____	_____
Driver's License/Id issuing state	_____	_____
License /Id number.....	_____	_____
License/Id issue date	_____	_____
License/Id expiration date.....	_____	_____
Birthdate	MM/DD/YYYY	MM/DD/YYYY
Blind	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Contribute to Presidential Election Campaign Fund.....	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Eligible to be claimed as a dependent on another return	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Street address.....	_____	Apartment number
City.....	_____ State..... _____	ZIP code..... _____
Home phone.....	_____	Foreign country
Fax	_____	Foreign phone

FILING STATUS

1 Single

2 Married filing jointly

3 Married filing separately

Check this box if you **did not** live with spouse at any time during the year

Check this box if you are eligible to claim spouse's exemption

Check this box if your spouse itemizes deductions.....

4 Head of household

If the qualifying person is a child but not your dependent, enter

Child's name..... Child's social security number.....

5 Qualifying widow(er)

Check the box for the year the spouse died 2018 2019

DEPENDENT INFORMATION

Full Name (first name, middle initial, last name, suffix)	Social Security Number	**Code	Not qualified credit Other dep	Date of Birth *Not Citizen	2020 Child Care Expense
					+Months in U.S.
			<input type="checkbox"/>	<input type="checkbox"/>	
			<input type="checkbox"/>	<input type="checkbox"/>	
			<input type="checkbox"/>	<input type="checkbox"/>	
			<input type="checkbox"/>	<input type="checkbox"/>	

** For the Dependent Code, enter the following:

- L = dependent child who lived with you
- N = dependent child who didn't live with you due to divorce or separation
- O = other dependent
- Q = not a dependent (but is a person who qualifies your client for the earned income credit and/or the credit for child and dependent care expenses)

+ Enter the number of months dependent lived with you, and/or your spouse if married filing jointly, in the U.S.

* Check this box if dependent child is not a U.S. citizen or resident alien

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2020

QUESTIONNAIRE: The following questions help identify items of tax consequence that should be accounted for in your return.

	<u>YES</u>	<u>NO</u>	Client: _____.
1.	_____	_____	Did your marital status change during 2020? If yes, what was your marital status as of December 31, 2020? _____.
2.	_____	_____	Will the address on your 2020 Federal return be different from the one shown on your 2019 return? New Address: _____.
3.	_____	_____	Did your occupation(s) change from the prior tax year?
4.	_____	_____	**** Did you receive the IRS REBATE in 2020 ? If so, how much received _____? Need FORM 1444 to reconcile advance payment.
5.	_____	_____	Were you notified by the IRS or a state taxing authority of changes to a prior year's return ? (If yes, enclose the related correspondence)
6.	_____	_____	Did you provide financial support to a person other than your spouse and dependent children during the year?
7.	_____	_____	Were there any changes in number of dependents from the prior year? Any child born in 2020 will require SS# _____. DOB _____.
8.	_____	_____	Did any of your dependent children under age 18 (age 24 if student) have total gross income over \$1,100 including unearned investment income? KIDDIE TAX RULES
9.	_____	_____	Did you pay for CHILD OR DEPENDENT CARE EXPENSE to allow you to work? Daycare Name/address _____. Amount Paid \$_____. Daycare SS/Tax ID# _____.
10.	_____	_____	**** Do you and/or your family have HEALTH INSURANCE COVERAGE ? Is your coverage from? <u>EMPLOYER</u> , <u>MEDICARE</u> , <u>EXCHANGE</u> , <u>Individual policy</u> . If from exchange, provide Form 1095-A . from employer, Form 1095-B or 1095-C
11.	_____	_____	Did you have college educational expenses ? If yes, MUST provide FORM 1098-T from college. Form always addressed and mailed to student.
12.	_____	_____	Did you have any distributions from 529 plans ? <u>Yes</u> <u>No</u> . If yes, provide Form 1099-Q .
13.	_____	_____	Did you make any Connecticut (CHET) Section 529 contributions in 2020? Provide year-end CHET account statement.
14.	_____	_____	Did you pay any loan interest in 2020 on qualified student loans ?
15.	_____	_____	Did you pay/receive ALIMONY ? Must be divorced prior to 2019. If yes, paid to: SS# _____. Amount Paid \$_____. Amount Received \$_____. Date of divorce _____.
16.	_____	_____	**** At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any VIRTUAL CURRENCY ?
17.	_____	_____	Did you receive any type of prize, award or gambling winnings during the year? If yes, provide Form W-2G or Form 1099-MISC.
18.	_____	_____	Did you receive any state or local income tax refunds during the year?
19.	_____	_____	Did you receive any unemployment compensation this year? Provide FORM UC 1099-G .
20.	_____	_____	Did you have any indebtedness discharged /forgiven (Form 1099-C) such as a home foreclosure ? Did you have any bankruptcy filing ?
21.	_____	_____	Did you receive any disability payments this year?
22.	_____	_____	Did you receive grants of stock options from your respective employers or dispose of any stock acquired under a qualified employee stock purchase plan? Provide Form 1099-B if exercised options and sold stock.
23.	_____	_____	Did you receive any tax-exempt interest income ? Provide statement.
24.	_____	_____	Did you surrender (redeem) any U.S. savings bonds during 2020?

YES NO

Client: _____.

25. ___ ___ Did you **sell stock or other investment securities**? Provide brokerage statement.
26. ___ ___ Are you a **teacher** working in the classroom? If yes, there is a \$250 deduction for school supplies and/or professional development courses.
27. ___ ___ Did you or your employer contribute to an **HSA (Health Savings Account)**?
28. ___ ___ Did you take any **distributions from your HSA account**? If yes, **MUST provide Form 5482-SA and Form 1099-SA** documentation.
29. ___ ___ Did you make any **IRA withdrawals in 2020**? If yes, provide Form 1099-R. Do you have any prior **nondeductible IRA** contributions? ___ Yes ___ No
30. ___ ___ Are you the **beneficiary of an IRA** whose owner is deceased?
31. ___ ___ If age 72, have you started **required minimum IRA (RMD)** withdrawals? Not required for 2020.
32. ___ ___ Did you make any **ROTH IRA CONVERSIONS in 2020**?
33. ___ ___ Did you make any **Roth IRA CONTRIBUTIONS in 2020**? If yes or have made any in prior years, provide schedule of amounts and dates.
34. ___ ___ Did you receive any lump-sum payments from a pension or profit-sharing plan? If yes, did you roll-over part or all of the payment into an IRA or other qualified plan within 60 days? ___ Yes ___ No
35. ___ ___ Are you or your spouse an active participant in an employer provided retirement plan such as a pension, profit sharing, 401K or 403(b)TSA? Taxpayer ___ Spouse ___
36. ___ ___ Did you make a **conversion from your 401(K) plan into a ROTH 401(K) plan**?
37. ___ ___ Did you **buy or sell a home or other real estate**? If yes, provide: (1)description of property, (2)date of purchase, (3) date of sale, (4)purchase price, (5)selling price, (6)selling expenses, (7)improvements and (8)**closing statements** for sale and re-purchase if any.
38. ___ ___ Do you own a 2nd or vacation home?
39. ___ ___ Did you **refinance your mortgage** in 2020? If yes, provide closing statement.
40. ___ ___ Did you have any casualty loss during 2020? Must be in a declared Federal disaster area.
41. ___ ___ Did you start a new business in 2020? If yes, what is the name of the entity _____ type of business entity _____.
42. ___ ___ Tax law and IRS regulations allow for expenditures for **travel and meal expenses** if adequate records can be presented. Information must include: (1) Amount; (2) Time and Place; (3) Date; (4) Business Purpose; and (5) Business relationship of recipient.
Do you have records, as described, for expenses?
43. ___ ___ Did you have exclusive business use of a portion of your home?
44. ___ ___ Did you buy or lease a vehicle for business purposes?
45. ___ ___ Did you make **charitable contributions**? Do you have **adequate documentation** or receipts? More complex rules in new IRS regulations.
46. ___ ___ Did you make **property** contributions over \$500 or **individual** check/cash contributions of \$250 or more to a charitable organization? **Need receipt/acknowledgement from charitable organization.**
47. ___ ___ Did you make any **gifts over \$15,000**(singly) or \$30,000(jointly) during the year (**annual exclusion amounts**)? If so, provide details.
48. ___ ___ ******** At any time during the tax year, did you have an interest in or signature rights (or other authority) over a bank account, or other **FINANCIAL ACCOUNT(S) IN A FOREIGN COUNTRY**? Approximate value in accounts: _____. **If yes, FORM FINCEN 114 Report of Foreign Bank and Financial Accounts must be filed.**
49. ___ ___ Did you receive any income during the year that has not been addressed in this Organizer?

Electronic Filing and Direct Deposit of Refund(s)

50. ___ ___ The IRS is able to deposit refunds directly into taxpayer's accounts. If you receive a **REFUND**, would you like **DIRECT DEPOSIT**? If yes, **provide voided check** if you haven't provided previously (not deposit slip).
51. ___ ___ For **payment of tax due**, would you like to make **DIRECT DEBIT**?