

Villano & Associates, Inc.
Certified Public Accountants

910 Skokie Boulevard, Suite 115, Northbrook, IL 60062-4013 Tel (847) 715-9745 Fax (847) 715-9422
e-mail: mark@villanocpa.com website: www.Villanocpa.com

Dear Client,

Happy New Year! You are reading Client Tax Letter version 2.0. The original version was written in the middle of December, when changes to the tax code were still in flux. The letter was all ready to go when the new tax law hit. Since then, I've been to three seminars and have approximately 15 hours of training just on the new tax law. Regardless of what you think of the new law, let me say that the changes are earthshaking. There are personal provisions that will simplify preparing and computing your tax return. In the 30+ examples I reviewed, most people benefited with lower taxes compared to the previous year.

For people who own businesses, it's not so easy. There are so many moving parts to the new tax law, and each business situation must be reviewed and individualized to find the best course of action. The best solution might be a change in the ownership entity or a different combination of wages and profits. There isn't a "one solution fits all" approach. My tax software company promises a "quick and dirty" comparison of your tax liability under the old and new tax law – so I will provide that as a part of your 2017 tax return papers. But for many of you, a separate after-tax-season meeting will be the best option.

I usually take a few pages to talk about tax trends for the current and subsequent tax years, but because tax law is massive, we sent an e-mail blast on the changes in late December. That e-mail is on the Villanocpa website, listed as "Implications of Tax reform to Individuals", in case you would like to review it. Keep in mind, that all we have now is a tax bill, written by newly minted government tax lawyers and congressional staffers. What happens now? The IRS interprets the law and writes the tax code and regulations that we use to file our tax returns. Unfortunately, we are missing what is known as "Congressional Intent" because the new law was crafted behind closed doors. When Congress meets in open committees, there is a record of what they were trying to accomplish. From experience, I can tell you that tax disputes between the IRS and taxpayers have been resolved by going back to the Congressional record. The average work experience of an employee in the IRS is now 5 years, and its current budget is 20 percent lower than it was in 2010. That doesn't bode well for both implementation and accuracy. Please make sure to review the e mail I sent which is on the Villanocpa website for more on the tax law (hotlink enabled.)

P.S. The Affordable Care Act is still the law of the land in 2017.

Security Issues

The IRS has determined that one of the prime targets of data theft is tax preparation firms. To mitigate risk, our company policy is to never open e-mails from unknown sources and to never download files unless you let us know you are sending something specific and we are watching for it. The four safest ways to transfer data to us are 1) surface mail, 2) drop-off in person, 3) fax, and 4) send through our secure client portal ShareFile (described later in the letter). This is the best way to protect your confidential information.

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Cyber-security Threats and Trends

We've all heard about security breaches at the IRS and Equifax. If those institutions, with all their resources, can't protect against hackers, what can we as individuals do? If a motivated, knowledgeable hacker wants to get your data, he/she probably will. In truth, we can set up firewalls, limit your downloads, and keep our software updated, but our best defense may be "anonymity." Most individuals and businesses are too small for a hacker to spend time to access their files. An acceptance of our limitations doesn't mean we're destined to fail. We just need to be constantly vigilant, so:

- 1) Be wary of software update notifications. Is the notification well written? Is it directing you to a website you don't recognize?
- 2) Change your passwords often. Don't use simplistic, easy to guess passwords. Do use a password software program to keep track of them.
- 3) Sign up for an identity theft program. I will continue to use Lifelock until I find a better program. Remember that criminals can be patient. It may be years before data obtained from a breach is used for criminal purposes.
- 4) Use a reputable computer security system. Norton, McAfee, and BitDefender qualify. Kapersky does not. And always do their updates to keep current. This is important!
- 5) Use a "pop-up" blocker. They are often standard on your browser.
- 6) Treat your personal information like cash. Don't leave important papers and statements lying around the house.
- 7) Back up your files and use data encryption.

In my opinion, every voter should contact their Senator/Congressperson and demand the right to lock down their personal information and credit reporting data. You should be the only one with a right to allow others to access your personal data. We need more rights over our personal information rather than less.

Tax Scams, Identity Theft and Phony E-mails

These scams are going to continue because people still fall for them. I know that many people receive them, because you still call me whenever you get them. The IRS *always communicates in writing first, followed by many more times.* If you're ever contacted by someone on the phone who says they are from the IRS – asking about an overdue tax, the best thing to do is ask that a copy of the notice be sent to you in the mail, and bring it to me so we can investigate for you. Do not give your email or personal information to someone who calls on the phone and pretends to be from the IRS. (Once again, Remember, the IRS does not do business that way. They *always* communicate in writing first.)

Estate Planning

So, you don't have an estate of more than \$11,200,000? Even though your estate may be considerably less, that doesn't mean you shouldn't have a Will/Living Trust and a Health Care Power of Attorney. Who needs a Will/Living Trust?

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- A family with minor children to settle guardianship issues
- A family with special needs individuals such as a disability that need Special Needs Trusts to keep their government benefits intact; and
- A family worried about a child in a rocky marriage or with creditor issues to protect the child's inheritance.

Also, it would be smart for a blended family to protect the financial rights of the children from the previous marriage. Don't want to end up as the star of a Lifetime Movie of the week? Get a Health Care Power of Attorney to keep you from having a hospital keep you alive using extraordinary means. This will let your wishes be known.

Beneficiary Elections

When was the last time you reviewed the beneficiary elections on your bank, brokerage, life insurance or retirement accounts? Too many times, people only fill out the primary beneficiary on their account forms. If the primary beneficiary is your spouse, and your spouse dies before you do, then the proceeds of your account will go into your trust. Having the Trust as your beneficiary can limit your beneficiaries' right to roll over IRA, Pension or Roth accounts to their own accounts.

You should select contingent beneficiaries – a second layer of beneficiary – in case something happens to the primary. It may be uncomfortable to think that far into the future, but your beneficiaries would thank you if they could. And who wants to make the IRS a beneficiary if they can avoid it.

Some attorneys will ask you to make your Living Trust your beneficiary, but most of the time that's a bad option. Ask your attorney to explain what the potential tax consequences would be of such a move. In the last few years, I have seen estates and trust with poorly considered beneficiary designations that have cost the beneficiary dearly. With the Trust as beneficiary, an RMD can be taxed at the maximum tax rate (39.6% currently), when income exceeds \$12,500. Beneficiaries can see their distributions diminished when custodians (brokerage companies and banks) do not allow them to roll over IRA accounts into their own accounts. If the custodian requires a trustee to distribute an IRA account, the beneficiary loses years of tax-free income accumulation.

The best action is to hire a strong Estate attorney to help prepare a plan that avoids tax and beneficiary pitfalls. If you are named as an executor or trustee of a trust or an estate, familiarize yourself with the governing documents. Ask who are the actual beneficiary designations. Ask the custodian what will happen to the assets after a death. Trust and estates are one of the many things we do well at Villano & Associates, so feel free to ask us questions.

Crypto-currency Trading

Make a killing in trading Bitcoin this year? Guess who wants to know about it besides the IRS? That would be me, because we have to report your trading activity even though you don't receive a 1099.

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Success with Taxpayer Authentication and Additional Due Diligence

Last year I asked for and received extra information that the IRS requested from you. You provided driver's license information for the taxpayer authentication program, copies of birth certificates, medical and school information to qualify for tax credits. So, thank-you for letting me keep you compliant with the new IRS requirements. You could have made my job harder, but you didn't. This year, there are no new requirements- only "maintenance" is required.

Office Preparation for Tax Season and New Social Security Offering

The main reason we make it through a long, trying tax season is the quality of the people who work here. Another reason is stability in our staff. What we do is hard, demanding and ultimately rewarding. Having a group of people who know our procedures and know you, year after year, is a blessing. We're lucky to have the same group of people back again this year. Elizabeth C. has been here twenty one wonderful years, Susan D. over ten, Susan C. in her fourth year, and my wife, Rosalie, in her third. There are no secretaries here because we're all accountants. Elizabeth handles all facets of our accounting and tax needs. Susan C. is our resident QuickBooks expert, with some serious Excel and Word skills. My wife has skills in Word and Excel, and is learning accounting and QuickBooks. I've invested over 70 hours in continuing education so far in 2017. When the new tax law is finalized, there will be many more. All to make sure I can do my best for you.

Tax Appointments:

The early bird is less likely to have a criminal pretend to be you and file a tax return using your social security number. By mid February, we are open 7 days a week. I start taking appointments at 10 am and stop at 6pm, although I can sometimes be persuaded to see you earlier or later for special situations. I take appointments on Saturday, after 1pm. Can't come to the office? Try using a **video chat using Skype or Go to Meeting**. And if you want to send me your documents before our meeting, upload your data to **ShareFile**, our secure password protected client portal. **Do not sent them via email.** Technology comes to the rescue!

The earlier we meet, the quicker we can pinpoint missing documents and potential tax issues, and the less likelihood of criminal identity theft. We can meet if you have most, but not all your information. Missing pieces can be filled in by mail, by fax, by phone, or through our online secure client portal ShareFile. If you plan on mailing your documents to me, please let me know when they will be arriving so we can watch for them. **First time clients** should bring the last **two years' Federal and State Tax Returns**, and any tax-related notices you have received.

Organizers, Engagement letters, & Extension Filing:

There are three ways we help you prepare for your tax appointment:

- 1) We can mail you a **paper organizer, an engagement letter, a year end information letter, and this glorious letter.** All contain information to help you manage tax preparation. Organizers are expensive to mail, and so we only send them to people who have completed them in the past or personally request a paper copy.

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- 2) We encourage you to use our **e-organizer**. All that's needed is a basic knowledge of computers. One sore spot - our system hasn't been adapted for Apple users. We also electronically send the engagement letter, the year-end information letter, and this letter.
- 3) If you haven't used an organizer in the past, you'll receive only our engagement letter, the year-end information letter and this letter. If you are a new client and want a paper or electronic organizer, please let us know.

Please sign and return the engagement letter prior to your appointment; this is a requirement of the Illinois Accreditation Board. The engagement letter is a legal letter to protect us both. The letter is an agreement that identifies what you need to provide me, and what services I will perform. If you are mailing your information, please include the signed engagement letter.

Do you have a **new address or new e-mail address**? Let us know so we may update our files.

Finally, and I cannot stress this enough, we simply cannot prepare an extension for you if you do not contact me before April 7th. Extensions require an estimate and a payment of tax you may owe. In other words, an extension to file is not an extension to pay. Remember, penalties on unpaid taxes can be significant.

Fees

Payment options include cash, check and PayPal. If you owe back tax fees, these must be taken care of before we begin 2017 taxes, and 2017 **must be paid when the returns are picked up or before they are mailed/filed with IRS**. If you have a running balance, bring the balance current so that we can get started on this year's return promptly. Please call me with any issues. Our fees are competitive for the quality of work we provide. Before you walk in the door, it takes a lot to make it all seem easy.

Website

Our website (www.villanocpa.com) has been updated with new features. A copy of this year-end letter is posted there, as well as our engagement letters, information on the tax changes, brochure, the year-end planning tools, our Privacy and Document Retention Policy, and our Personal/ Business Document Retention List. We have added a **login screen for PayPal** and a link to the **client portal** discussed below. We hope that you find these helpful. We are happy to help if you have questions about the client portal.

Client Portal

My **Client Portal system called "ShareFile"** is a way for us to safely transfer sensitive financial documents electronically. The files are password protected, and can only be accessed by you and me. It is much more secure than e-mail. My Portal meets the IRS requirement that accountants provide a **"secure method of electronic communications."** Do not send sensitive information by e-mail. It is inherently insecure.

If you want to access the portal, please let me know and I will send you an e-mail with an account name, password, and simple instructions. The last three years of tax returns are in your

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portal. Some of my clients use the portal to simplify loan applications or mortgage refinancing. Instead of giving the lender paper copies of returns (or asking me to send them), we give loan agents a temporary password to the documents for one week. This allows them to download what they need and reduce the amount of paperwork that can potentially get lost. After a week, remind me to remove their access and they can no longer get into the portal. I encourage you to upload your current information to the portal instead of using email. It is more secure and thus safer for you.

Documentation Requirements

It is your responsibility to keep documentation that will stand up to IRS scrutiny. At our meeting, we will review your tax documents. If there are deficiencies in your documentation, I can help you correct them before we file your return. Our website also has an excellent letter on documentation retention requirements. Not sure if something is important or needs to be reported on your return? Ask me. Every year some innocent question or comment leads me to find out new & important things that affects your personal tax returns. We've known each other long enough not to be shy.

Client Interview

When I interview my clients – in person, by phone, or via e-mail, I have some standard questions unrelated to the preparation of your income tax return, like:

- Do you have a will and/or trust? When was it revised last?
- Do you have special needs children or other family members?
- Do you have life insurance policies outside of work?
- How much credit card debt do you have?
- Are you saving money for retirement?
- Are you underwater on your mortgage?
- Have you started saving for your child's education?
- Are you taking care of elderly family members?

I am an Accredited Retirement Advisor, as well as a CPA. I don't write wills. I'm not a financial planner. I don't sell life insurance or securities. But oftentimes I can start a conversation that will get you thinking. And I know the best attorneys, financial planners, brokers and other specialists that can help you achieve your goals. Ask me. If the question is too complex, we can schedule an in-depth meeting after tax season.

Tips to Avoid Potential Pitfalls: How to avoid problem areas

- 1) **Beware of scammers! Many more clients reported receiving threatening and official sounding phone calls from people purporting to be IRS agents demanding money.** They almost always know some of your personal information to snare you. Some are so sophisticated, they even manipulate their phone numbers to look like they originate from the IRS, and leave phone numbers to return calls. Do not be fooled by their threats. Do not give them sensitive information such as birthdates or social security numbers. Hang up immediately. Call me with any questions and never call the scammers back.

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- 2) **Pay Estimated Taxes online** – Estimated tax payments are a continuing headache. Payments are missed, lost in the mail, abducted by aliens or misapplied. You can lose the benefit of your prior year's tax carry-forwards, which can be reduced or eliminated by penalties and interest. **The best prevention is to make your payments online at www.EFTPS.gov, the IRS tax payment website.** Illinois has also made it easier to make your estimated state payments online using MyTax Illinois. We will discuss Illinois payments at our upcoming meeting. Once the form is accepted, you can make your payments online & avoid writing checks all together.

If you use a paper check, only use one that you get back from the bank so you can keep a copy for your records. Very important! Use the **estimated payment envelopes** I provide with your tax return. If you must use paper checks that you don't get back, be sure to **make copies before mailing**. Write your **social security number, the year, and the form number** on the front of the check.

- 3) **Send us all Tax Notices – Please call us about all tax notices you receive during the year.** I have seen nearly double the volume of notices this year. Often a simple letter clears up what may seem at first to be a problem. Make a copy of the letter(s) and send them to us as soon as possible. Problems dealt with quickly are easier to resolve than long-festering ones. It's easy to get flustered by a letter from the IRS, but most often, a simple clarification is all that is needed. Very few of our clients actually end up owing the penalties and interest that the IRS/IDOR requests. But even a trained professional can't get some penalties on late or missed payments/forms abated. It takes a lot of time to respond to tax notices, so I charge a nominal fee based on the effort involved. Tax authorities find that most people never question notices. They just pay. Of course, that is always an option. But that could mean you are paying something you do not owe!
- 4) **Extensions: We will no longer automatically file extensions.** Please call us before April 7th if you want us to file an extension. We need to have a good idea of your tax position to prepare an accurate tax estimate.
- 5) **Disclosure Changes:** If you ask me to forward any documents to a third party, you (and your spouse if you are filing a joint return) **will need to sign a release prior to sending them out.** This is a part of the **HIPPA Privacy Act**, just like at the doctor's office. Another perfect opportunity to use the Client Portal!
- 6) **Automatic Deposit of Refund or Electronic Payment: Please check and verify your direct deposit/electronic payment (for electronic estimated payments) information.** If your bank account has changed in any way, your refund or payment will not be made in a timely manner. A bank merger or takeover may have changed your routing and/or account number.

On the Home Front

2017 saw the addition of one more grandson in California, bringing the total to four - two granddaughters in Israel and two grandsons in California. At least I have two children in the same state. Unfortunately, it's California. Hello frequent flyer miles!

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Eyeglass Collection Center

We'd like to remind you that our office is a **collection point for eyeglasses for** Lions International. If you have old eyeglasses, Lions International can refurbish them and distribute them to needy people throughout the world. Lions International is the largest service organization in the world. If you are looking for a place to make a difference, please contact me about our local organization.

Our Thanks

We want to thank you for all your previous support and business. We look forward to renewing our relationship and serving your 2017 tax needs. Also, we want to personally thank you for your many client referrals. I appreciate the referrals you have given me as they are the highest form of compliment. Thank you!

All the best to you and your family for a productive and healthy 2018.

Sincerely,

Mark R. Villano and staff

Mark R. Villano

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Our Privacy & Document Retention Policy

We collect nonpublic personal information about you from the following sources:

- Information we receive from you on applications, tax preparation worksheets, other documents we use in preparing your tax return, or other forms;
- Information about your transactions with us or others; and

We do not disclose any nonpublic personal information about you to anyone, except as requested by you or permitted by law.

If you decide to discontinue our services or become an inactive customer, we will adhere to the privacy policies and practices as described in this notice. Our policy is to store discontinued or inactive files for three years and then shred the physical documents.

We restrict access to your personal and account information to those employees who need to know that information to provide services to you. We maintain physical, electronic and procedural safeguards that comply with federal standards to guard your nonpublic personal information.

Your confidence in us is important and we want you to know your personal and account information is safe. If you have questions or concerns, please contact us.

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From the Northwest,

- Take I-94 E
- Exit at IL 43- Waukegan Road .2 miles.
- Turn LEFT at Dundee Road 1.7 miles.
- Turn RIGHT on Skokie Blvd .1mi
- Destination is on the RIGHT

From the North,

- Take US-41 S to Lake Cook Rd.
- Exit at Lake Cook, turn RIGHT (west)
- Take first LEFT at Skokie Blvd. 1.3 miles
- Destination is on the RIGHT

From Chicago (South),

- Take I-90/ I 94 ~ 20 miles
- Exit at 30 A, Dundee Road West (IL 68)
- Turn LEFT at Skokie Blvd .1 mile
- Destination is on the RIGHT