

Dear _____,

Welcome to the 2020 US tax return filing season. We look forward to working with you.

To assist you in preparing your information, **please review the issues discussed below and complete the enclosed checklist**. Additional copies can be downloaded from our website at www.bbagroup.ca if required.

Paperless delivery

We are pleased to offer a completely paperless e-Delivery delivery option. Instead of mailing out an income tax package after filing your returns, **at your option**, we will:

- Scan the documents you've sent us to prepare your returns
- Compile a PDF package for you containing full copies of your returns and your supporting documents.
- Send the above PDF package to you via a SECURE document delivery service.

It is important to note that if this option is chosen, we will NOT be returning to you, *nor retaining*, your original paper documents. Therefore, if you are participating in eDelivery, you should ensure to download and store a permanent copy of the PDF transmitted to you in accordance with IRS record keeping requirements.

If you opt-in to our paperless delivery, you will receive a link to download your family's tax packages at the following email address: _____. Please contact us immediately if this email address requires correction.

You can opt in to e-delivery by checking the eDelivery box on page 1 of the enclosed checklist.

New for the 2020 tax year:

1. Starting in the 2019 tax year, alimony is no longer deductible or taxable if the agreement is amended or finalized on or after January 1, 2019.
2. Starting in the 2019 tax year, tax favoured foreign trusts (including Canadian RESP's) are exempt from filing Form 3520 and Form 3520A. All other non-US trusts are required to file Form 3520 and/or Form 3520A.
3. For US citizens, green card holders, and US residents, if you received the Economic Impact Payment (ie. Stimulus payments with a maximum of \$1,200 for single filer, \$2,400 for joint filers, and \$500 for each qualifying child, or "EIP"), please let us know. If you did not receive the EIP in 2020, you may qualify to claim the recovery rebate credit based on your 2020 income.
4. You can claim up to \$300 of charitable contributions if you claim the standard deduction. You can claim the actual amounts donated if you claim itemized deductions.

5. If you were diagnosed with or suffered economic losses as a result of the coronavirus and you withdrew from your IRA, 401(k), 403(b) plans, the following new tax-favored withdrawal rules may apply to you:
 - a. The 10% early withdrawal penalty for up to \$100,000 withdrawn is waived.
 - b. You are able to spread the amount withdrawn over three years starting with the 2020 tax year
 - c. You can contribute within three years to the eligible retirement plans without penalty or tax consequences.

Filing Status and Filing Requirements

1. If you have US source income but are neither a citizen nor a resident of the US (i.e. you are what the US calls a non-resident alien), please provide us with details of the US source income you earned in 2020. Note that if you hold a US Green Card the US considers you to be a resident of the US.

Expiring Individual Taxpayer Identification Number (ITIN) for non-resident aliens

The IRS has implemented a program where by ITIN's need to be periodically renewed. The following ITIN's will have expired:

- ITINs that you have not included on a tax return in the last 3 consecutive years;
- ITINs with middle digits of 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, or 87 (eg. 9NN-70-NNNN) unless the ITINs have already been renewed; or
- ITINs issued before 2013 with the middle digits of 88, 90, 91, 92, 94, 95, 96, 97, 98, or 99.

The IRS will delay processing returns and refund claims filed with an expired ITIN. There may also be a loss of eligibility of some tax benefits until the ITIN is renewed.

In order to renew your ITIN, you may need to attach a completed Form W-7 and include certified documents along with your US tax return. For more information see <https://www.irs.gov/uac/many-itins-expire-jan-1-renew-now-to-avoid-refund-delays>.

2. If you are a US person for tax purposes (i.e. a US citizen, a US Green Card holder, a US resident, or a person caught by the US's Substantial Presence Test) please provide us with the details of your worldwide income and deductions and note the following additional disclosure requirements:

FBAR and Form 8938

Disclosure may be required if you own, jointly own, or have signing authority over any non-US financial accounts. Please refer to the attached checklist for more information.

The Department of Treasury now requires FBAR forms to be filed electronically (e-filed). We would be happy to prepare and e-file the FBAR form(s) on your behalf. However, if you prefer to e-file the 2020 FBAR forms yourself, please visit the BSA E-filing website to download the latest version of FBAR form at <http://bsaefiling.fincen.treas.gov/NoRegFBARFiler.html>. If you choose to e-file the FBAR forms yourself, please provide us with a copy of the completed FBAR forms.

The 2020 FBAR forms are due April 15, 2021, with an automatic extension granted to October 15, 2021. Specific requests for this extension are not required to be filed. If e-filed after October 15, 2021, there may be substantial late filing penalties (\$10,000 or more).

In addition to the FBAR, you (and your spouse) may be required to file Form 8938 which, if applicable, would be sent to the IRS with your 2020 US tax return. We will prepare this form for you based on the information in your FBAR forms. Please refer to the attached checklist (page 3, item B) for more information. The IRS may charge a substantial late filing penalty (\$10,000 or more) if Form 8938 is received after the due date of your return.

Other Required Information Returns

Additional disclosure is required if any of the following situations apply to you:

- You have a 10% or greater ownership interest in a Canadian (or other non-US) private company;
- You have an interest in a non-US trust, such as a family trust, inter-vivo/alter-ego trusts (but excluding a Canadian RESP); or
- You own Canadian mutual funds or exchange traded funds (ETFs) outside of your RRSP/RRIF.

Ownership of any of the above may result in US taxes payable. Also, the IRS may charge a substantial late filing penalty (\$10,000 or more) if the applicable forms are received after the due date of your US tax return.

The global intangible low-taxed income (GILTI) tax may apply if you are a shareholder of a non-US private company and more than 50% of the votes and value of that non-US private company are owned by US persons. For more information, please contact us.

2020 Due Dates

Your 2020 US income tax return is due on **April 15, 2021** unless one of the following extensions applies:

- a. If you lived outside the US on December 31, 2020, the due date of your 2020 return is **June 15, 2021**.
- b. If you are a non-resident alien without any US employment income in 2020, the due date of your return is **June 15, 2021**.
- c. If you file Form 4868 (Application for Automatic Extension of Time to File US Income Tax Return) with the IRS before your above-mentioned due date, the extended due date of your return will be **October 15, 2021**.
- d. If you are required to file a US state income tax return (in addition to the US federal return), you may be required to file an extension with the applicable state tax authorities as well.

Due to our workload in May and June, it is possible that we may not complete your return on or before June 15, 2021. In this case, we will file an extension so that your US tax return is due October 15, 2021.

Form 3520A for reporting non-US trusts are due on March 15, 2021. However, if you file Form 7004 with the IRS before **March 15, 2021**, the deadline for filing Form 3520A is extended to September 15, 2021.

FBAR forms (Form 114) must be e-filed before **October 15, 2021** and no further extensions are available.

It is important to file your US Federal and State income tax return(s) and FBAR forms on time as there are significant late filing penalties if they are filed late.

Net Investment Income Tax ("NIIT")

As part of the US Affordable Care Act, you may be subject to an additional 3.8% tax on the smaller of: (1) your net investment income (such as interest, dividends, capital gain, rental, and royalty income); and (2) the excess of your modified adjusted gross income (i.e. income before the foreign earned income exclusion) over:

- \$125,000 if married filing separately,
- \$250,000 if married filing jointly, or
- \$200,000 if single, head of household, or qualifying widower.

You are not allowed to deduct investment expenses (e.g. financial planner fees and investment interest expense) against your investment income for the purpose of the NIIT.

Please note that the NIIT cannot be offset by foreign tax credits in respect to income taxes paid to Canada. Consequently, it is likely that your 2020 US tax return will result in US taxes payable if you are subject to the NIIT.

Other Matters - US Gift Tax

We want to remind you that the annual gift tax exclusion limit after January 1, 2020 is US \$15,000 per year and US \$157,000 per year for gifts to a non-resident alien spouse. If you gifted more than these amounts in 2020 to any one person, you may need to file a US gift tax return. Gifts to US spouses, charities and payments for tuition or medical expenses for other people are not counted toward this annual limit.

The US gift limit for 2021 is US \$15,000 and US \$159,000 per year respectively.

Fees

Should you choose to have us prepare your 2020 US tax return(s), there will be a separate billing for US tax services. The amount billed is determined by the amount of time we spend on your file multiplied by our standard hourly billing rates. Additional schedules (such as FBAR, Form 8938, or other required information return(s)) and more complex returns require more time and thus the cost increases accordingly.

Please note that we also keep track of any time we may have spent on your file during the year (e.g. if you called us with specific questions, we did some specific tax planning work for you, or if we helped in responding to correspondence from the Internal Revenue Service and/or state tax authorities). This time is also included on your tax bill at our standard hourly billing rates.

If you are in doubt about these or any other items, please bring them to our attention.

Finally, also enclosed is a letter designed to clarify the terms of our engagement as your US tax preparer and the nature of the services we provide. Please review this letter, sign where indicated, and return to us with your tax information. Please contact us if you have any questions.

We look forward to assisting you in the preparation of your 2020 US tax returns.

Yours truly,

BBA ACCOUNTING GROUP INC.



Per: Howard D. Bickford, CPA, CA