TAX NEWS

SPRING 2018

Dear Client:

Protection of your personal information is extremely important to us. Our firm utilizes best practices guidelines established by the Internal Revenue Service in our office procedures. This may mean that we have set up additional security protocols when preparing or filing your income tax returns. Some of the ways that the state tax agencies are protecting your identity is by requiring picture ID's when filing your tax return or utilizing security codes to electronically file your return.

We know that some of these security measures may be frustrating or delay the filing of your tax return. However, the IRS has seen a significant reduction in the release of fraudulent tax refunds by using these security measures to protect both you and the federal and/or state tax agencies.

In this newsletter we cover how fraud can occur and what you can do if you suspect fraudulent activity in the use of your social security number or through the theft of credit card or bank information. The IRS will assist in the case of fraudulent use of your social security number and has established procedures to help taxpayers.

While we can help with other types of identity theft, the best place to start is with the FTC website, IdentityTheft.com. Through this site you can get help with reporting and recovering from identity theft. The website takes you through the process of identifying what happened, build a recovery plan, and how to put the plan into action.

And for those clients thinking about retirement and what your potential tax hit may be we have provided the ten most common sources of retirement income and how they are taxed for federal income tax purposes.

Our office is available to help you with any of your tax related questions. Contact us anytime there are changes to your personal situation that may affect your tax liability.

How 10 Types of Retirement Income Get Taxed

When you are planning for retirement, it is fun to contemplate all the cruises, rounds of golf, and restaurant meals you have ahead of you. You have earned it!

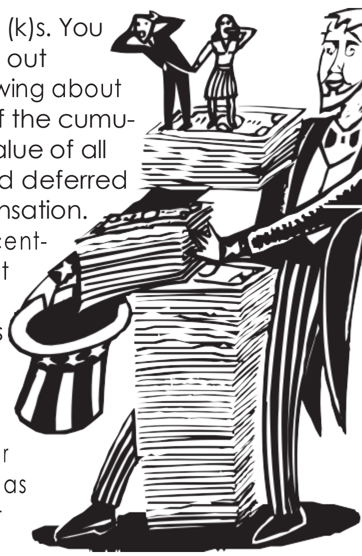
Unfortunately, many retirees discover too late that the fun times may have to be curtailed by 10%, 15% or more—the cumulative impact of federal and state taxes on withdrawals from their nest eggs. Indeed, most forms of retirement income— including Social Security benefits, as well as withdrawals from your 401(k)s and traditional IRAs— are subject to federal taxes. And unless you live in one of nine states with no income taxes at all (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming), you can expect your home state to collect taxes from you in retirement as well.

Take a look at the tax bills you are likely to face on the sources of retirement income.

1. Traditional IRAs, 401(k)s and 403(b)s

Savers love these tax-deferred retirement accounts because they do not pay taxes on their contributions. Their contributions reduce their taxable incomes, saving them money on their tax bills in the current year. Their savings, dividends and investment gains continue to grow on a tax-deferred basis.

What they tend to forget is that this is tax deferral, not avoidance and they have to pay taxes down the line when they retire and start taking withdrawals. The taxes apply to both the contributions and any gains. And at some point, you must withdraw money from the accounts: Required minimum distributions (RMDs) kick in at age 70½ for holders of traditional IRAs and 401(k)s. You will start out withdrawing about 3.65% of the cumulative value of all IRAs and deferred compensation. The percentage that the IRS requires you to withdraw each year goes up as you get older.



The tax rate you pay on your traditional IRA and 401(k) and 403(b) withdrawals would be your ordinary income tax rate, which is typically higher than the more advantageous long-term capital gains tax rate.

2. Roth IRAs

Roth IRAs come with a big long-term tax advantage: Unlike their 401(k) and traditional IRA cousins—which are funded with pretax dollars—you pay the taxes on your contributions to Roth IRAs up front, so **your Roth withdrawals are tax-free once you retire.**

One important caveat is that you must have held your account for at least five years before you can take tax-free withdrawals. And while you can withdraw the amount you contributed at any time tax-free, you must be at least age 59½ to be able to withdraw the gains without facing a 10% early-withdrawal penalty.

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3. Social Security

Once upon a time Social Security benefits were tax-free, but that all ended with the signing of the Social Security amendments in 1983. Currently, depending on your "provisional income," either 50% or 85% of your social security may be taxable. To determine your provisional income, take your modified adjusted gross income, add half of your Social Security benefits and add all of your tax-exempt interest. If you are married and file taxes jointly, here's what you'll be looking at:

- If your provisional income is less than $32,000 ($25,000 for singles), there's no tax on your Social Security benefits.
- If your income is between $32,000 and $44,000 ($25,000 to $34,000 for singles), then up to 50% of your Social Security benefits can be taxed.
- If your income is more than $44,000 ($34,000 for singles), then up to 85% of your Social Security benefits are taxable.
- If you file married filing separately and lived with your spouse at any time during the year then 85% of your social security benefits are taxable regardless of the provisional income.

4. Pensions

Most pensions are funded with pretax income, and that means the full amount of your pension income would be taxable. Payments from private and government pensions are usually taxable at your ordinary income rate, assuming you made no after-tax contributions to the plan.

5. Stocks, Bonds and Mutual Funds

Sales of stocks, bonds and mutual funds that have been held for more than a year are taxed at long-term capital gains rates. These rates can be quite favorable. For tax year 2018, if you're single and earn up to $38,600 or married filing jointly and earn up to $77,200, gains are entirely tax-free up to a certain amount.

For higher incomes, the rates go up. The next level is 15% (singles with incomes between $38,600 and $425,800, and married couples making $77,200 to $479,000). For those with incomes above those amounts, the top level is 20%.

Short-term capital gains from sales of investments held for under a year are taxed at your ordinary income tax rate.

6. Annuities

There's a good chance that some (or all) of the income you receive from any annuity you own is taxable.

If you purchased an annuity that provides income in retirement, the portion of the payment that represents your principal is tax-free; the rest is taxable. For instance, if you purchased an annuity with $100,000 and in 10 years it is worth $190,000, you would only pay tax on the $90,000 of interest earned. The insurance company that sold you the annuity is required to tell you what is taxable.

Different rules apply if you bought the annuity with pretax funds (such as from a traditional IRA). In that case, 100% of your payment will be taxed as ordinary income. In addition, be aware that you'll have to pay any taxes that you owe on the annuity at your ordinary income-tax rate, not the preferable capital gains rate.

7. Life Insurance

Life insurance proceeds paid to a beneficiary because of the insured person's death are not taxable.

As for a life insurance policy with a cash value component, under IRS rules, the cash value withdrawn from a life insurance policy is tax-free as long as it is structured properly and doesn't become a Modified Endowment Contract (MEC).

8. Dividends

Dividends are the profits gained from stocks. There are two types of dividends, taxed at different rates. Qualified dividends— the most common type that investors typically encounter— are taxed at long-term capital gains rates. And non-qualified dividends are taxed at your ordinary income tax rate, which is usually higher than the capital gains rate.

To be considered as "qualified," dividends must be held for a minimum of 60 days during a 120-day period which begins 60 days previous to the ex-dividend date. The ex-dividend date is the day after a company distributes dividend payments to its shareholders.

Note that if the dividends stem from a tax-deferred account funded with pretax dollars (like a 401(k) or IRA) and the dividends are reinvested, then they aren't subject to taxes at that time. But when you start making withdrawals, they will be taxed at your ordinary income tax rate.

9. Municipal Bond Interest

The interest on a municipal bond is not taxed at the federal level, but capital gains from the sale of these bonds can be taxed. Interest from bonds issued in an investor's home state is usually exempt from state income taxes, too.

Keep in mind that although municipal bonds are tax-free, interest earned will be factored into calculating Social Security provisional income.

10. CDs, Savings accounts and Money Market Accounts

Interest payments on CDs, savings and money market accounts are taxed at your ordinary income tax rate.

Contact us if the source of your income changes to determine the change to your

Identity Theft

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- Claim that they can remove accurate negative information from the individual's credit report.

Protect Yourself:

- Never provide personal financial information over the phone or internet if you did not initiate the contact. Instead, call the company yourself for verification.
- Do not be intimidated by an email or phone call. Any communication suggesting dire consequences for failing to provide or verify financial information should be ignored.
- Review account statements regularly to ensure all charges are correct. If your account statement is late in arriving, contact the lending institution immediately.
- Don't fall for an IRS imposter. The IRS does not send out unsolicited emails asking for personal information.

Identity Theft and Your Taxes

Your identity and money can be stolen in a tax-related scam via email ("phishing"), fax, phone, or letters. Some recent examples of identity theft scams are:

- Refund scam. A bogus email, claiming to come from the IRS, tells you that you are eligible to receive a tax refund for a given amount if you just follow the instructions in the email.
- Inherited funds, lottery winnings, and cash consignment scams. A bogus email, claiming to come from the U.S. Department of the Treasury, notifies you that you will receive millions of dollars if you follow the instructions in the email. This may be a multi-step scheme that includes instructions for you to deposit taxes on the funds before they can be paid out or the issuance of a phony check on which you must pay 10% tax before the check can be deposited.
- EFTPS scam. A bogus email, claiming to come from the IRS, contains a realistic-looking screenshot of the IRS website with a message about fraud attempts regarding your bank account. The email states that the bank account can be unblocked if you just click a link and provide information.
- EIN scam. A bogus fax, claiming to be from the IRS, informs you that you have failed to submit required bank account details. You are asked to fax back a form that requests your EIN, bank information, and officer signatures.
- Notify the IRS if you receive a tax-related phishing email, do not click on the links or open any attachments. Forward the email to phishing@irs.gov or call the IRS at 800-829-1040.

How the IRS Contacts Taxpayers

- The IRS will never initiate contact with you by email or any social media tools to request personal or financial information.
- It is highly unlikely that the IRS will initiate contact by fax or phone call. You can call the IRS at 800-829-1040 to verify that an unexpected fax or phone call is legitimate.

The IRS will never initiate contact with you by email or any social media tools to request personal or financial

Fraudulent Tax Returns

An identity thief might use your Social Security Number to fraudulently file a tax return and refund. You could be completely unaware that your identity has been stolen until your return is rejected for e-filing or you get an IRS notice or letter indicating that your electronically filed return is rejected because the Social Security Number belonging to you, your spouse, or a dependent has already been used on another tax return.

- This situation can occur because of a mistyped number or dispute about claiming a dependency exemption. Such cases do not necessarily indicate identity theft.
- If your return has been rejected because of a previously used Social Security Number, it cannot be e-filed. You must file a paper return.

If you receive an IRS notice stating that:

- More than one return was filed in your name for the year,
- You have a balance due, refund offset, or initiation of collection action for a year when you did not file a return, or
- IRS records indicate that you received wages from an employer you didn't work for.

Respond immediately to the name and phone number printed on the IRS notice or letter. You will be asked to complete Form 14039, Identity Theft Affidavit, and provide identifying information.

IRS Identity Protection Specialized Unit (IPSU):

If you believe there is a risk of identity theft due to lost or stolen personal information, contact the IPSU immediately so the agency can take action to secure your tax account.

- Call 800-908-4490.
- You will be asked to complete Form 14039, Identity Theft Affidavit.

Form 14039, Identity Theft Affidavit:

Form 14039 has two purposes.

1) Informs the IRS you are an actual or potential victim of identity theft that has or could affect your tax account.
2) Requests that the IRS mark your account to identify any questionable activity. You must provide details of the actual or potential identity theft situation, tax years impacted (if known), address and other contact information, and a photocopy of valid government-issued identification.

Identity Protection PIN (IP PIN) Program:

If the IPSU determines that you do have a tax-related identity theft problem, the IPSU will research your account, identify the IRS business unit handling the case, and monitor the case to ensure it is being handled in a timely manner.

- The IRS may issue you an Identity Protection PIN (IP PIN). The computer-generated IP PIN has six digits and is specific to the tax year for which it was provided.
- The IRS issues IP PINs to allow a legitimate taxpayer's return to bypass the identity theft filter, prevent fraudulent returns from being processed, and minimize taxpayer burden associated with potential delays when a return fails one or more of the identity theft filters.
- A new IP PIN will be issued to you every filing season as long as the identity theft indicator remains on your account.

In all likelihood our office will be notifying clients of an issue with the electronic filing of the individual income tax return. The return may be rejected indicating that a social security number on the tax return was already used on a previously filed tax return. We are available to assist you with any questions or concerns regarding the filing of your individual income tax return. Contact us if you suspect fraudulent use of your social security number through activity on your credit report or from other financial institutions.

Identity Theft

If you suspect you are the victim of financial fraud, whether it be use of your credit card, funds withdrawn from your bank account, fraudulent tax return filed using your personal identity there are steps that must be taken to begin the process of resolving the

1. Report the crime to the police immediately. Get a copy of the police report or case number. Credit card companies, the bank, or insurance companies may ask for the reference to verify the crime.
2. Immediately contact the credit card issuers. Get replacement cards with new account numbers and ask that the old account be processed as" account closed at consumer's request" for credit record purposes. Follow up with a letter to the credit card company that summarizes the request in writing.
3. Call the fraud units of the three-credit reporting bureaus to report the theft. Ask that the accounts be flagged. Also, add a victim's statement to the report requesting contact to verify future credit applications.
   - **Equifax Credit Information Services-Consumer Fraud Division**
     P.O. Box 740256
     Atlanta, GA 30374
     Call: (888) 766-0008
     Website: www.equifax.com
   - **Experian**
     P.O. Box 9554
     Allen, TX 75013-9554
     Call: (888) EXPERIAN (397-3742)
     Website: www.experian.com
   - **Trans Union Fraud Victim Assistance Department**
     P.O. Box 2000
     Chester, PA 19016-2000
     Call: (800) 680-7289
     Website: www.transunion.com
4. Notify the Social Security Administration's Office of Inspector General if the Social Security Number has been used fraudulently.
5. File a complaint with the Federal Trade Commission.
   - BY PHONE: Toll-free 1-877-ID-THEFT (438-4338), TTY 1-866-653-4261
   - BY MAIL: Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Ave. NW, Washing? ton, DC 20580
   - WEBSITE: www.consumer.ftc.gov

To file a complaint or get free information about consumer issues from the Federal Trade Commission:

- PHONE: 1-877-382-4357
- TTY:1-866-653-4261
- INTERNET: ftc.gov
- Free annual credit report: www.annualreport.com

Credit Counselors

Most credit counselors offer services through local offices, the internet, or on the telephone. Many universities, military bases, credit unions, housing authorities, and branches of the U.S. Cooperative Extension Service operate nonprofit credit counseling programs. A financial institution or local consumer protection agency may also be good sources of information and referrals.

Choosing a Credit Counseling Organization

Reputable credit counseling organizations advise on managing money and debts, help develop a budget, and usually offer free educational materials and workshops. Counselors are certified and trained in the areas of consumer credit, money and debt management, and budgeting.

Consumer Credit

Counselors discuss the person's entire financial situation and help develop a personalized plan. A reputable credit counseling agency should send free information about the services it provides without requiring any details about the individual's situation. If a firm doesn't do that, consider it a red flag and go elsewhere for help. Check out potential credit counseling agencies with the state Attorney General, local consumer protection agency, and Better Business Bureau.

Debt Management Plans:

How a Debt Management Plan Works

Money is deposited each month with the credit counseling organization. The organization uses the deposits to pay unsecured debts, such as credit card bills, student loans, and medical bills, according to a planned payment schedule. Creditors may agree to lower interest rates and waive certain fees but check with all the creditors to be sure that they offer the concessions that a credit counseling organization describes. A successful debt management plan requires regular timely payments and could take 48 months or longer to complete.

Avoid organizations that push a debt management plan as the only option before they do an analysis of the individual's financial situation.

Debt Negotiation Programs

Debt negotiation is not the same thing as credit counseling or a debt management plan. It can be risky and have a negative impact on the individual's credit report. Many states have laws regulating debt negotiation companies and the services they offer. Just because a debt negotiation company describes itself as a "nonprofit" organization, there's no guarantee that the services offered are legitimate. Most debt negotiation companies charge consumers substantial fees for their services, including a fee to establish the account with the debt negotiator, a monthly service fee, and a final fee of a percentage of the money supposedly saved.

Tip-Offs

Be careful of debt negotiation companies that:

- Guarantee they can remove unsecured debt.
- Promise that unsecured debts can be paid off with pennies on the dollar.
- Require substantial monthly service fees.
- Demand payment of a percentage of savings.
- Tell the individual to stop making payments or communicating with creditors.
- Require the individual to make monthly payments to them rather than the creditor.
- Claim that creditors never sue consumers for non-payment of unsecured debt.
- Promise that using their system will have no negative impact on the individual's credit report.