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## *THE STRAUSS REPORT*

Fall 2016

### **FALL 2016: Taxes Do Matter!**

While many of us are totally focused on the upcoming election (along with the discussions of the complexity and unfairness of the tax code), it is still close to the end of 2016 and it is important to focus on your own tax and financial situation now and going forward. There have been no tax bills passed this year - the IRS is way busy working to combat Identity Theft and collections of unfiled and unpaid taxes - and Congress is too politically at odds with the other party to focus on real tax reform, but there are many opportunities to work towards lowering your 2016 taxes under the current tax code. With our increasingly complex lives (job changes, death, birth, marriage, divorce, moving and investment changes - as well as medical expenses) you could see a **major** impact on your 2016 taxes. Many taxpayers (given summer vacations, the start of the school year and just generally busy times for all of us) may not be aware of the steps they should take between now and the end of the year to lower 2016 taxes and collect tax data needed for next year's returns.

In this issue of **The Strauss Report**, we will review the tax laws in effect for 2016 as of now and suggest year end tax saving strategies to save you money. In addition, we will review several important tax and financial issues: medical expenses, charitable contributions, cost basis for sales of capital assets as well as inheritances, what happens after a loved one passes on and as well as how we work with and for you in the case of an IRS or IL notice or audit.

### **Let's Talk First About Identity Theft....**

Identity Theft includes people getting your Social Security number(s) and creating false tax returns. Then they file them before you do and collect refunds from the IRS directly into a bank account. When you file, we are informed that someone has already filed under your Social Security number. You then have to prove your identity to get your refund and get an Identity Protection PIN to use in future years on your 1040.

Beginning in the tax filing season in 2015, the IRS (following a Security Summit with CEOs of the leading tax software preparation firms, software developers and financial product processors) tested 23 new tax return data elements; with these in place, the IRS stopped \$1.1 billion in fraudulent refunds on more than 171,000 tax returns from January - April this year. This is a 33% increase from 2015.

In addition, our tax software (and Strauss Tax Service) are working as always to keep your personal tax data safe. Starting now, our software will require us to log into our tax program and log in again when our computer is idle for more than 15 minutes ( similar to your bank online). We will also be required to password protect any PDF tax forms we email you. In addition, we have additional security screening software for both our computer and especially our emails - if we do not recognize your email, it could wind up in spam/junk. (Calling us and leaving a voice mail still works!)

### **Now Let's Talk About Pfishing...**

Pfishing is when someone pretending to be an IRS Agent (and giving their badge number) calls/emails you and demands payment for taxes. They might threaten you, tell you your homes would be raided by police or your bank accounts sealed. They might tell you to buy a prepaid debit card or give them your credit card information.

**We need to be totally clear about this:** the IRS NEVER calls or emails you. If there is a problem with your tax return, you will get an IRS notice (often a CP 2000 notice) which is not a bill, but says there is a discrepancy between what you reported and what the IRS found on their computers from your income documents. You should never talk to these callers, give out any personal information or send any money. You can call us and give us the number of the person who called you; we can email this information to a special unit in the IRS.

Earlier this month, police in India raided nine call centers in Mumbai, India and arrested 70 people who were using phone numbers in the U.S. and pretending to be the IRS demanding payment for taxes. Another 630 people are also under investigation. According to one source, this scam netted over \$150,000/day!

### **Private Tax Collectors...**

One thing that is happening is the use of private tax collectors by the IRS. These private collection agencies will work on accounts where taxpayers owe money but the IRS is no longer actively working their accounts. The bill authorizing this was passed in 2015 as part of a Transportation Act and requires rather than just permits the IRS to use private collectors. If this happens, the IRS will give each taxpayer **written notice** that the account is being transferred to a private collection agency; that agency will also send a separate letter to the taxpayer confirming the transfer. Any payments will only be made by check payable to the U. S. Treasury and sent directly to the IRS.

### **What Do we Know About Taxes this Fall?**

- The tax rates for ordinary income (wages, interest, IRAs and pensions) remained the same for most of us as in prior years.
- The tax rates for qualified dividends and Long term capital gains (0% and 15%) remain the same for most of us as in prior years.
- The formula for taxable Social Security (50% and 85% taxable for "higher" incomes) did not change.
- **Medical expense** deductions - now over 10% of AGI if under 65; stays at 7 1/2% for those older than 65 until 2017.
- The **deduction for IL Sales Taxes** on Schedule A is permanent
- **Donating part or all of your Required Minimum Distribution from your IRA to Charity** is permanent.
- Most of us will not pay more tax unless our incomes increase.
- The 3.75% IL tax rate is still in effect
- **Tax Provisions - which began in 2013** - mostly for higher income taxpayers:
  - a. **3.8% Medicare tax surtax** on **investment** income for Married filing Joint (MJ) Adjusted Gross income over \$250,000 and Single over \$200,000
  - b. **.09% Medicare tax surtax** on **Wage** income for MJ over \$250,000 and Single over \$200,000
  - c. **3% phase out of itemized deductions** - begins at Adjusted Gross Income of \$300,000/Married and \$250,000/Single
  - d. **Phase out of Personal exemptions** - begins at same income levels above- and can phase out all exemptions at higher income levels

### **SO What can I/we still do before year end?**

\* **Make Your Deductions Count.** Many more taxpayers are itemizing their deductions due to substantially increased **medical costs** coupled with lower adjusted gross income. Medical costs include: out of pocket insurance costs (Medicare, COBRA, long term care insurance and retiree medical withheld from your pension); deductibles; doctor and increasingly major dental bills; lab fees; all eye care costs, prescription and doctor ordered drugs; medical travel, parking and lodging; hearing aids and batteries; and nursing home fees that **qualify as medical expenses**. If you pay an in-home caregiver and have a physician's letter stating the care is medically necessary, you may deduct these costs, so long as you are paying an agency or the caregiver will receive a 1099MISC from you (so their income is reported to the

IRS) and is not paid in cash. Call us now for our **new** medical expenses worksheet.

In addition, with the cap of \$2,500 on pretax medical Section 125 plans at your employer, you may pay a lot more out of pocket. Your employer's insurance may also now have a much higher deductible and co-pay and you should review your out of pocket medical expenses now to see whether you might prepay big ticket items or schedule elective medical before the end of the year. **Open Enrollment Season is in the fall for most employers** – so now is a good time to review your 2016 (and possibly 2017) medical and dental costs - so you can put money away **pretax** during the upcoming enrollment period.

Finally, you should also review your company medical plan (if any) with other supplemental insurance plans. Many companies have or will stop offering group health insurance in 2016 to retirees (citing health care reform changes), replacing them with new “pre tax health insurance arrangements” that can be used to buy supplemental medical insurance. In addition, many companies have substantially increased your share of medical insurance premiums so comparing your and your spouse's plan to see which is better for your family is a good idea.

\* **Check your 401K contributions and your allocations.** The maximum contribution for 2016 is \$18,000 and \$24,000 for those of us over 50, unchanged from 2015. Many employers still have some sort of matching program so if you are not at least contributing pre-tax the amount up to the employer contribution, you are losing free money. If you are younger, strongly consider doing the Roth 401K option if it is available. For many of us our 401K will be our major source of retirement income, so if you don't save systematically and invest carefully, you may wind up working way longer than you planned, just to have enough money for daily living and increased medical expenses.

\* **Review Capital gains and Stock or Mutual Fund sales.** Many of us had big year-end LTCGains from mutual funds that messed up their 2015 taxes - this is probably not going to be the case this year. However, many of us sell stocks or mutual funds and wait until tax time to determine gain or loss ( or there might be a merger from a stock you hold with taxable implications). These can create problems since we need the basis as well as the selling price to determine if you made a profit. Determination of basis can be tricky since it often includes one or more purchases, splits, spin offs, reinvested dividends, date of death values and records which are incomplete. You may need year-end statements and/or prior tax returns – or we may have to do research. The broker sends a 1099B reporting the gross sale (and basis if bought after January 1, 2011 - before that it is still your responsibility) to the IRS. Sometimes, mutual fund companies or brokers provide complete information with your year-end or tax reporting statement,

We suggest that if you have sold a capital asset that we work with you to compute gain or loss now. This can assist you in tax planning - selling other assets at a loss to balance a gain or determining the tax consequences of a gain or loss.

\* **Review your Charitable Contributions.**

Both cash/check and noncash contributions can be big tax savers. Fall is a good time to review your 2016 contributions and plan for year-end donations. (A piece of tax trivia: 34% of all charitable giving is done in the last three months of the year.) You can now donate to a qualified charity from your Required Minimum Distribution from your IRA. The check **MUST** go from your IRA trustee to the charity; most mutual fund companies and brokerage firms have special forms for this purpose. If you do this, the donation amount **IS NOT** included in your 1040 income; it is then not eligible for a charitable deduction on Schedule A. We would suggest not waiting until the very end of the year to do this, just in case it takes longer than expected or there are any problems. In addition, donations of clothing and household goods and furniture to Purple Heart, Goodwill or your church are deductible. Please make sure you have receipts and a listing of donated items and their cost- for used, not new items.

## **JUDI STRAUSS IN PRINT, ON MEDIA**

Our Website - [www.strausstax.com](http://www.strausstax.com) continues to offer tax tips and immediate tax update alerts when new

legislation is passed - as well as workshop dates. **We also have a Facebook page** and are posting updates and links to important articles on taxes and investing and retirement planning real time.

In January 2017 Judi will be offering her "Tax Update" workshops on Tuesday, January 10 in Woodridge, Tuesday, January 17 in Lisle and Tuesday, January 24 in Downers Grove, all at the Public Libraries at 7 pm.

### **TAX and FINANCIAL TIDBITS...**

-- **Don't forget your Required Minimum IRA Distribution (MRD) for 2016.** You should also review your IRA beneficiaries - we are finding that there can be problems after death if the beneficiary is your trust or one or more of the beneficiaries cannot be located.

-- **Annuities and Managed Investment accounts** are being "sold" by brokers and investment advisors as an alternative to CDs since the interest rates are so low now and the stock market can be uncertain. Check if the returns (after fees) are worth it - and look at any surrender charges. We work with clients to review broker proposals and help you plan your pre tax (401K) and post tax portfolios on our per hour basis.

-- **The 2017 Social Security increase** is expected to be very small - .002%. However, Medicare premiums for both new enrollees (Age 65), Medicare recipients not on SSA and higher income taxpayers will increase substantially; those on Medicare and Social Security now ( and not higher income) will not see an increase. Exact rates and amounts will be out in late October.

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-- Many people are asking if their **home sale** - principal residence or vacation home is tax free. Call us for our home sale question and answer worksheet.

-- **When someone passes on**, there is a lot of tax work to do. We recommend that if you are the Executor or Trustee, we review the steps that need to be taken immediately after death and help you carefully and successfully complete the required tax filings and communication with beneficiaries, asset companies, employers and the IRS. We work with you and your attorney to answer questions, prepare required tax filings and complete paperwork so as to minimize future problems. Call for our **Estate Check-off list** or our **Questions and Answers about Estates and Trusts.**

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