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THE STRAUSS REPORT

Summer 2016

Summer is finally here- along with confusion about tax policies and the election.....

The 2016 filing season went relatively smoothly considering over 140 million personal 1040s were filed through May 16 (91% efiled) - except for the late arrival of investment tax reports and the fact that fully one third of taxpayers waited until the last two weeks to file their 1040. Many clients have filed extensions this year and we will be working through the summer and early fall to complete those tax returns - as well as those for clients who have not filed for one or more years! The campaign rhetoric about taxes is very confusing (and distressing) and the continued stalemate in IL is causing many taxpayers to leave or consider leaving the state given the limited resources for social services and infrastructure.

In this issue of **The Strauss Report**, we will review what we know now: on changes and tax saving measures in place for 2016 and beyond, on the cost basis requirements when you sell a stock or mutual fund, on required IRA distributions as many Baby Boomers hit that 70 1/2 age, and the Medicare and investment surtaxes for higher income taxpayers. We will also answer questions we get on identity theft, home sales, gift and estate taxes, inheritances and medical expenses. And, finally, we will review how long to keep tax records and your investment concerns both for your 401K and IRAs as well as other post tax money.

2016: What's in...

- **Deduction for State and local Sales taxes - if you itemize- is now permanent**
- **Tax-free distributions from IRAs donated to charities are now permanent**
- **The Marriage Penalty Relief (so the brackets are double that for singles) has been made permanent.**
- **Tax-free distributions from IRAs donated to charities are now permanent**
- **The $1000 per child credit until age 17 (phased out at higher incomes) is made permanent.**
- The **floor for the Medical expense deduction** is now 10% if you are under 65; it stays at 7 1/2% for those older than 65 until 2017.
- The **low income tax rates** both for ordinary income and for qualified dividends and long term capital gains are now permanent for most of us. This includes the 0% rate on investment income for taxpayers in the 15% bracket and the 15% rate for those with taxable income below $413,200 Single and $464,850 Married Joint. For those taxpayers, the marginal rate increases on ordinary income to 39.6% and to 20% on dividends and long term capital gains. For Trusts and estates, the higher rate begins at $13,150.
- The **new 3.8% tax on investment income** from the health care bill is on dividends, interest and capital gains (but not tax-free municipal bond interest) - on income over $250,000 for Married Joint and $200,000 for Singles - and the same $12,150 for trusts and estates.
- **An additional .009 Medicare tax** will be levied on those taxpayers with greater than $200,000 earned income - Single and $250,000 Married Joint (combined income),
- **Education Credits - American Opportunity and Lifetime Learning** (up to $2,500) and the deduction for student loan interest. There are income limitations for both of these.
- **Limitations on Itemized Deductions and Personal Exemption**s are back, with those messy worksheets - when Adjusted Gross Income exceeds $258,250 Singles and $309,900 for Married Joint. This is huge and can wipe out exemptions completely for higher income taxpayers.

While taxes are stable for now - our lives do not stop! Many of us have changed jobs, gotten married, retired, sold our principal residences or vacation/rental properties, or have had a loved one pass away. Mid year and end of year tax planning is ongoing - and we are here to help you plan for 2016.

THINGS TO CONSIDER DOING THIS SUMMER:

1. Organize Your Tax Records

Many of us have paper tax returns along with all our back up records back to when we first filed or when we got married. Here are good guidelines as to what to keep and when to shred:

- **Keep for a year or less:** Bank Deposit, ATM and Credit Card receipts with monthly statements
- **Keep for a year or more**: Loan documents until paid off. Purchase and Sale statements for investments; then keep annual/ year-end statements.
- **Keep for seven years**: The IRS can go back up to seven years if you under report income, so keep your white folders with back up documents at least seven years.
- **Keep Forever:** Essential records such as birth and death certificates, marriage licenses, divorce decrees, Social Security cards and military discharge papers. Also hold onto estate planning documents, life insurance policies, pension plan documents and an inventory of your safe deposit box. Also have a list of all accounts and passwords in a safe place and share with your trustee, executor and/or your attorney.

2. Review your 401K/ IRA and Other Investments

Many of us have several IRAs and investment accounts and have never or hardly ever reviewed how they are performing or what they are invested in. Consider:

- **Making lists** of all accounts and contact information
- **Making an appointment** with your broker or financial advisor to review performance
- **Planning - if you want to make a charitable contribution from your IRA now**- not at year end, when everyone is so busy.
- **Considering if this a good time to change and/or consolidate investments**.
- **Reviewing your investments** and possible tax strategies with us or another objective professional.

3. Read your Trust or Will - or have one done now!

Many of us have not looked at our will or trust in five years - or often 10 or more years. And at least one third of us do not have even a will - even though we may be nowhere as rich as Prince! Your will or trust defines who will manage your affairs and money if you become incapacitated or pass away. Your will or trust defines who will get your assets and in what percentage. NOW is a good time to review who is your executor or trustee and what you have - before it is too late. We work with attorneys in the area all the time and review trust documents with you for possible tax issues.

4. Make Sure your identity is safe.

Many of us have multiple credit and debit cards and bank accounts and forget to check online or on our paper statements for issues. While the credit card companies are always on the look out for fraud, the new chip cards could transfer liability back to you. And if you lose a card (or even misplace it), call your credit card company immediately. They will cancel your old account and FEDEX you a new card.

HERE ARE SOME OF THE QUESTIONS WE GET:

- **How do I know what to withdraw for my minimum distribution (RMD) at age 70 ½?**

First, if you are still employed, you do not have to withdraw from your 401K at **your current employer**. However, you have to withdraw from any other IRA and from any other 401K. You must take a minimum amount out of each IRA/401K **or take it all** from one pretax investment. The IRS has a Uniform Lifetime Table (life expectancy) to compute this RMD; the amount is computed based on the 12/31/15 value of each IRA or the Fair Market value total of all investments. Many of us have more than one IRA – in banks, in mutual funds and often in annuities as well. The companies holding your IRAs will send you a notice reminding you of the required withdrawal, but ultimately it is **your responsibility.**

You can choose not to withdraw in the year you are 70 1/2 but you **must** withdraw your first RMD before April 1 of the following year. In addition, you **must** withdraw the age 71 year RMD in that same year - or before December 31, or two distributions in the same year. We usually do not recommend postponing, but check with us if you have a question.

There are tax consequences when you withdraw. You will pay tax on the total withdrawal at ordinary income rates. The IRA withdrawal may make more of your Social Security taxable. You may have some nondeductible IRAs and we need to determine the nontaxable amount – on a form 8606. You may need to pay Estimated Tax or have tax withheld from your withdrawal so you are in good shape at tax time.

- **I/we sold a stock. How do I compute the Basis?**

When you sell a stock, mutual fund, land, second home etc., the IRS gets a 1099B showing the gross sales price and the cost basis supplied by the broker or mutual fund company if the purchase was after January 1, 2011 (called covered sales). If you bought a stock, mutual fund, home or land prior to that date (uncovered sales), it is up to you to determine the cost basis – and thus the profit on the sale. Only the profit is taxed – and only at 0% or 15% (and now 20% for higher income taxpayers) if you held it more than one year! In addition, with the new Form 8949, the IRS is planning to match cost basis shown on the 1099B with what you/we put on your tax return - and we expect letters in a year or so if there are discrepancies.

However, you may have inherited an asset, bought it over many years and reinvested the dividends, or transferred it from another investment company - and the cost basis may either be unknown or not correct on your broker's records. If you sell an asset in 2016, it is a good idea to call us for an appointment and make sure you (and we) have the cost basis correctly computed prior to tax season next year.

- **Home Sales - your principal residence and other homes too.....**

The "old" law on rolling over tax profit from home sales and only excluding up to $125,000 changed a long time ago. The current tax law says you can exclude up to $500,000 of gain if Married and up to $250,000 of gain if Single if you owned the property and lived in it as your primary residence for two out of the last five years. Losses on either primary homes or second homes not used as rentals or for business purposes cannot be taken. There are exceptions if you are in a nursing home or if you are recently widowed. In addition, if a former primary residence becomes part of a trust or estate after the owner passes away, there are different rules for the sale on a form 1041 and losses can be taken. Call to get our home sale information worksheet.

- **What is going on with the Estate and Gift Tax?**

The Federal Estate Tax now has a top rate of 40% and an exemption of $5.43 million for estate taxes for 2016. In addition, any applicable exclusion amount that remains unused as of the death of a spouse who dies after December 31, 2010, generally is available for use by the surviving spouse, as an addition to such surviving spouse's applicable exclusion amount. The IL exclusion is now $4 million. A person may make an unlimited number of $14,000 gifts, so long as they are to different individuals, without filing a 709 or Gift Tax return.

- **What is important for medical expenses this year?**

It is no surprise that medical insurance premiums are going up - and up! You should review your insurance costs and deductibles (often $1000 - $2000 + now) to see which spouse's insurance has the best coverage and is the most cost effective. Just because they are "pre-tax" does not mean they are good. This is also true for retirees on their prior company plans vs. Blue Cross or other supplementary plans. Also, the Patient Protection and Affordable Care Act of 2010 allows parents to keep their children (even if not dependents) on their insurance until age 26; depending on the child's plan, this may be a better "deal."

In addition, more taxpayers (and our clients) are itemizing their deductions due to substantially increased **medical costs.** Medical costs include: out of pocket insurance costs (Medicare, COBRA, long term care insurance and retiree medical withheld from your pension); deductibles; doctor and dental bills; lab fees; all eye care costs, prescription and doctor ordered drugs; medical travel, parking and lodging; hearing aids and batteries; in home care required by the doctor and nursing home fees that **qualify as medical expenses**. If you are thinking about a retirement or nursing home, they provide information about deductible fees and upfront buy-in costs; we can review these with you to determine the tax impact.

JUDI STRAUSS IN PRINT, ON MEDIA

Our Website - **www.strausstax.com** continues to offer tax tips and tax update alerts when new legislation is passed - as well as workshop dates. Our **Facebook** page also offers tax tips as well as links to many interesting and timely articles - you can "like" Strauss Tax Service and tell your friends as well.

TAX and FINANCIAL TIDBITS .....

- **Email and texting scams as well as phone calls** designed to trick U.S. taxpayers into providing personal data and sending money for unpaid taxes have surged 400% so far this year. The schemes involve so-called phishing messages designed to trick taxpayers into believing the emails and texts and scary phone calls represent official communications from the IRS. The phone calls not only ask for personal information but also ask for money to be sent related to an IRS investigation of unpaid tax liability. Please call or email us if you got one of these: THE IRS does not call or email! They only send paper notices!

- **Many people are asking about retiring at age 62** - and indeed starting to collect SSA early. You get 75% of the full SSA if you retire early. However, you can get Medicare at age 65, but you must sign up and pay for it yourself. Call SSA 1.800.772-1213 or Medicare 1.800.633-4227 or for retirement/tax projections, call us for an appointment.
- **The IRS and IL are busy sending out notices this summer**. IL will not let us figure underpayment penalties on your IL 1040 and many clients have recently received these unwelcome letters. Call us if you receive one. In many cases, an IRS problem (on a CP 2000 notice) can be solved with a phone call on our practitioner priority line or with a letter. For the IL notices, usually you just have to pay!
- **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 after death and help you successfully complete the required tax filings and communication with beneficiaries, asset companies, and the IRS. We work with you and your attorney to answer questions and prepare required tax returns so as to minimize future problems. Call for our **<u>Estate Check-off list</u>** and our **<u>Questions/ Answers about Estates and Trusts.</u>**

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NEW NUMBERS TO NOTE	**2016**
Maximum Social Security payroll tax limit	$118,500
Age for full SSA	66
Maximum Earnings to collect full SSA - under full retirement age	$15,720 ($1,310/month)
Business miles	54 cents/mile
Medical miles	19 cents/mile
Charitable miles	14 cents/mile
Gift Tax exclusion	$14,000/per donee/ year
Estate Tax exclusion	$5.45 million
IRA maximum (over 50 catch up)	$5,500 + $1,000
401K maximum (over 50 catch up)	$18,000 + $6,000

Pursuant to federal regulations imposed on tax professionals who offer tax advice (Circular 230), we are required to advise you that any advice contained herein is not intended to be used for the purposes of avoiding tax penalties that may be imposed by the IRS.