TaxUpdate

2016 TAX TIPS NEWSLETTER

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Greetings. *Buried inside the thousands of pages of tax code are ideas that can save you money at tax time. Here are some great tax tips that you can put into practice right away.*

Lower Your Taxes...THIS YEAR!

Thankfully, there is still time to reduce your tax burden this year. Here are six ideas most of us can use.

1 Pre-tax savings. Take advantage of opportunities to set aside income on a pre-tax basis. This includes participation in company-sponsored retirement savings programs, Health Savings Accounts (HSA), and "Flex Benefits" accounts that allow using pre-tax earnings to pay for childcare and out-of-pocket medical costs. Remember, however, unlike HSAs it is important to use up any funds in your Flex health care accounts and dependent care accounts prior to the end of the plan year as any unused funds will be forfeited.

2 Defer income and accelerate deductions or vice versa. When possible, consider whether it is better to reduce taxable income in this year or next year. By understanding which tax year will be more advantageous to you, you can act to place income into a subsequent tax year and accelerate deductible expenses into the current tax year. On the other hand you may believe tax rates will be higher next year. If this

is the case, you will want to move as much income into the current year and defer expenses into the following year.

Here are some ideas if your strategy is to minimize taxable income this year:

- *Delay receipt of a bonus check*
- *Make an extra house payment*
- *Make extra charitable contributions (that you would make anyway)*
- *Make next year's church donations this year*
- *Make extra trips to donate non-cash items prior to January 1st*
- *Review your investments to book gains and/or losses*

3 Maximize tax-exempt and tax-deferred investments. The higher your tax bracket the more tax savings you'll realize with tax exempt and tax deferred contributions such as employer sponsored 401(k)s, IRA's, tax-free municipal bonds, and Roth Accounts.

4 Navigate estate planning. Manage the value of your estate to minimize estate taxes through gifting, trusts, life insurance, annuities, and other estate planning tools.

5 Avoid penalties. Avoid costly penalties and interest charges by filing your returns and paying taxes owed on a timely basis, as required by the IRS.

6 Double-dip tax savings. Donate appreciated stock (held over one year) to a charitable organization. Not only do you get to deduct the appreciated value of the stock, you also avoid paying capital gains tax on the increased value of the shares.

I Wish I Knew That

Here are five tax topics that seem innocent but can cause problems if not handled correctly.

Gambling Winnings. If you receive a tax form from a casino for your winnings, that information is sent to the tax authorities. Since the form typically only contains the amount you won, save copies and records of any gambling losses.

Maturing CDs. Be careful with maturing CD's in a retirement account that are rolled over into new CDs. Your financial institution may provide you with tax forms showing CD distributions, but not the rollovers. You will need to account for this on your tax return.

Retirement Distributions. Make note of any distributions from your retirement accounts and the type of account. Depending on your age and the type of retirement account, a number of tax surprises could occur if not properly recorded. This includes early withdrawal penalties and potential income tax on the withdrawals.

Gifts Over $14,000. If you provide gifts in excess of $14,000 ($28,000 for a couple) to any one person during the year, you must fill out a gift tax form.

Contemporaneous Documentation. The time to obtain proper documentation to support your deductions is when the activity takes place. For example, if you misplace a receipt for a charitable donation, you can ask the organization for a copy of the "old receipt" but creating a new receipt to replace the one you lost is not valid documentation.

Tax Surprises for Newly Retired

You've got it all planned out. Your retirement savings plans are full, you have started receiving Social Security benefits, and your pension is ready to go. What could go wrong? Here are five surprises that can turn your plan on a dime.

1 Health emergency and long-term care. When a simple procedure could cost thousands, health care costs can put a huge dent in your plan. Long-term care can cost thousands per month. If your health insurance is not adequate you may need to pull money out of your retirement plan to pay the bills. While this withdrawal may not be subject to a penalty, it might be subject to income tax if the funds are from a pre-tax account.

TIP *Look into creative ways to enhance your health insurance coverage including supplemental health insurance and prescription drug cost coverage. Consider long-term care insurance and other alternative ways to reduce your potential living needs.*

2 Taxability of Social Security benefits. If you have excess earnings, your Social Security benefits could be reduced. Even worse, if you are still

working, your benefits could be subject to income tax.

TIP *If this impacts you, consider conducting a tax planning session to better understand your options.*

3 Your pension plan. Understand if your pension is in good financial health. Often pensions will offer a lump-sum payout option for you. Should you take it?

TIP *Review your pension plan's annual statement. If there are risks, consider cashing out and planning for the potential drop in future income. Remember to address the tax impact of your decision.*

4 Required Minimum Distribution (RMD). Forgot to take your required minimum distribution from your retirement plans this year? The tax bite could be quite a surprise as the penalty on the amount not withdrawn is 50%!

TIP *If over 70 ½, select a memorable date (like your birthday) to review your RMD and take action so this tax surprise does not impact you.*

5 Future tax rates. The federal government is spending over $1 trillion more than it brings in each year. Cash starved states are looking for new tax revenue. Don't be surprised when future tax rates continue to rise during your retirement.

TIPS

- *Create a retirement plan with higher state and federal tax rate estimates*
- *Plan for increases in health care costs through Medicare*
- *Plan for more tax on Social Security benefits*
- *Plan for higher capital gain and dividend taxes (versus the current 0 – 20%)*

Identity Theft Tip: Secure Your Social Security Number

One of the most powerful tax tips for 2016 is taking action to protect your identity. Central to protecting your tax records is protecting your Social Security Number (SSN) from would-be thieves. Here are some things that you can do to minimize the risk of this happening to you.

Never carry your card. Place your SSN card in a safe place. That place is never your wallet or purse. Only take the card with you when you need it.

Know who needs it. There are few who really need to know your SSN. Here is that list.

- **The government.** Governments use the SSN to keep track of your earnings for retirement benefits and to ensure you pay proper taxes.
- **Your employer.** The SSN is used to keep track of your wages and withholdings. It also is used to prove citizenship and to contribute to your Social Security and Medicare accounts.
- **Certain financial institutions.** Your SSN is used by various financial institutions to prove citizenship, open bank accounts, provide loans, establish other forms of credit, and report on your credit history.

Know who really does not need it. Many other vendors may ask for your SSN, but having it is not an essential requirement. The most common requests come from health care providers and insurance companies. Challenge these providers if it is requested.

Destroy and distort. Shred any documents that have your SSN listed. When providing copies of your tax return to anyone, distort or cover your SSN. Remember your SSN is printed on the top of each page of Form 1040. If the government requests your SSN on a check payment, only place the last four digits on the check. Prefill the first five digits with X's.

Keep your scammer alert on high. Never give out your SSN over the phone or via e-mail. Do not even confirm your SSN to someone who happens to read it back to you while on the phone.

Proactively check for use. Periodically check your credit reports for potential use of your SSN. If suspicious activity is found, have the credit agencies place a fraud alert on your account.

Replacing a stolen SSN is not only hard to do, it can create problems. You will need to re-establish your credit history, reassign your SSN benefits history, and realign your tax records. Your best defense is to stop the theft before it happens.

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.