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IRS Reveals The "Dirty Dozen" Tax Scams For '17

The IRS has released its annual list of the "Dirty Dozen" tax scams to watch out for in 2017. Here's a recap of the IRS' summary of the top 12:

1. Phishing: A scammer may pose as a representative of an organization you know and trust, perhaps sending mass emails under another person's name or purporting to be a bank, credit card company, tax software provider, or government agency. The goal is to get you to provide personal information.

2. Phone Scams: Crooks may make aggressive phone calls when impersonating an IRS agent. The person might threaten you with police arrest, deportation, license revocation, or some other action—which legitimate agency employees wouldn't do.

3. Identity Theft: Watch out for identity theft, especially during tax-filing season, when someone might steal your Social Security number and use it to file a tax return, claiming a fraudulent refund.

4. Return Preparer Fraud: The vast majority of tax professionals provide honest, high-quality service. But some dishonest preparers perpetrate refund fraud, identity theft, and other scams.

5. Fake Charities: Look out for groups masquerading as charitable organizations to attract donations from unsuspecting contributors. Be wary of charities with names similar to familiar or nationally known organizations. Take a few extra minutes to ensure your hard-earned money goes to legitimate and currently eligible charities. Visit IRS.gov to check out their status.

6. Inflated Refund Claims: Promoters may offer exorbitant refunds. Be wary of anyone who asks taxpayers to sign a blank return, promises a big refund before looking at their records, or charges fees based on a percentage of the refund. Fraudsters rely on flyers, advertisements, phony storefronts—even word of mouth via community groups—to find victims.

7. Excessive Claims for Business Credits: The fuel tax credit —which isn't available to most taxpayers and usually is limited to off-highway business use, including farming—often is claimed improperly. Taxpayers also should avoid misuse of the research credit. Claims for that credit may be disqualified for failure to participate in or to substantiate qualified research activities or to satisfy tax law requirements.

8. Falsely Padding Deductions on Returns: Avoid the temptation to falsely inflate deductions or expenses on returns to pay less than what you owe or to get a bigger refund. Think twice before overstating deductions

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Federal Estate Tax Reduced, But What About State Taxes?

The IRS has increased the federal estate tax exemption, which is indexed annually for inflation, to $5.49 million for 2017, up from $5.45 million in 2016. That lets couples now shield as much as $10.98 million from federal estate tax.

Depending on where you live, you still might have to worry about estate and inheritance taxes on the state level. But there's more good news: Nine states have enacted changes in these taxes to reduce the tax bite for some families in 2017.

In New Jersey, which long has had only a $675,000 exemption from state estate tax, the amount will increase to $2 million in 2017 before the tax goes away in 2018. But a state inheritance tax for heirs who aren't direct descendants still applies. In Maryland, meanwhile, the state exemption rises to $3 million; in Minnesota, to $1.7 million; and in New York, to $5.25 million (effective April 1, 2017). Rhode Island and Washington are indexing their exemptions for inflation. Finally, Delaware, Hawaii, and Maine will match the federal exemption amount.

Residents of some states may need to amend their wills to reflect the changes and to avoid any unintended results—such as giving more than you'd planned to a particular heir. An estate-planning professional can help you with your situation.

Kim Scott, CFP®
Financial Advisor

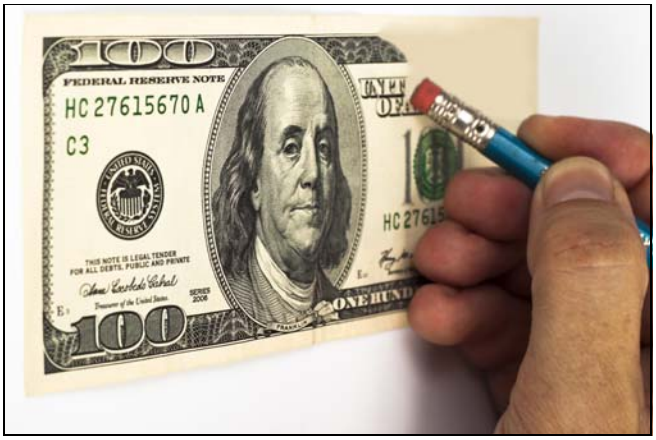
5 Retirement Mistakes You Can Fix

To err is human, but some mistakes are worse than others, and slip-ups that occur while you're planning for retirement can come back to haunt you financially.

But it may not be too late for you to fix some common mistakes. Here are five prime examples:

1. Saving too little. It seems obvious, but not setting aside enough money could become a big problem if you underestimate the amount you'll need to live on—all the more likely as life expectancies continue to rise. So if your employer offers a 401(k) plan with matching contributions, try to take full advantage of it, even though your take-home pay will be reduced by deferrals. And you can supplement these savings with IRA contributions.

2. Starting too late. From the start of your career there are many financial priorities competing for a share of your salary. You may be saving to buy a home or to put your kids through school. Yet while early contributions to a retirement plan can produce outsized benefits, you may be able to make up for lost time if you put as much as the law allows into your retirement savings. For 2017, the maximum 401(k) deferral is $18,000 or $24,000 if you're age 50 or over. The IRA limit is $5,500 or $6,500 if age 50 or over. You also might decide to work a few years longer than you'd originally planned. That can boost your savings while reducing the length of your retirement.



3. Ignoring taxes. Taxes are an essential part of the retirement planning equation. When you take money out of your retirement plans you'll likely owe federal and state income tax on those distributions. Part of your Social Security benefits also is subject to taxation. And your tax rate during retirement might be higher than you expect if you don't get some of the deductions you were able to claim while you were working. Factoring in taxes when you plan for retirement will help you create a more realistic scenario.

4. Not diversifying your investments. While you've undoubtedly heard about the benefits of spreading your investment dollars across many kinds of holdings, it's often tempting to stick with investments that have been doing well for you. But there's no guarantee that gains on a particular stock or fund will continue, and creating a diversified portfolio can help reduce the risk that you'll be hurt by losses in one or two investments. Just keep in mind that diversification doesn't provide guaranteed protection, especially in declining markets.

5. Ending retirement planning when you retire. Even after you retire you'll have important decisions to make. You'll need to make sure your portfolio stays diversified, and you'll likely need to allocate some money to stocks or other investments that may help you keep pace with rising costs.

Maybe the biggest overall mistake you can make is assuming you know it all. We're here to answer any questions you may have and to discuss how you can avoid the common traps discussed here. ●

What Would Estate Tax Repeal Mean?

If President Trump and the Republican-led Congress get their way, the federal estate tax will be repealed. This could be good news for wealthy families that were facing a hefty estate tax bill in the near future. However, if certain changes accompanying the estate tax repeal also are enacted, other families may encounter an unpleasant income tax surprise.

Normally, an unlimited marital deduction shields transfers between spouses from federal estate and gift taxes, while a separate, finite exemption shelters gifts and bequests to other beneficiaries, including your children. The current exempt amount, which is indexed for inflation, is $5.49 million in 2017. The top tax rate on additional amounts is 40%.

In addition, heirs can benefit from a "step-up" in basis when they inherit investment assets—they're valued on the date of death rather than what was paid for them. So if someone acquired securities for $1 million and it was worth $5 million when that person died, the beneficiary's adjusted basis for income tax purposes is $5 million. The $4 million of appreciation that occurred before the death remains untaxed forever.

Assuming the estate tax is repealed effective for 2017, there would be no more federal estate tax worries for families inheriting an estate worth more than $5.49 million. However, under the latest proposals, Congress also would eliminate the step-up in basis (with a $10 million exception for farms and small business interests), and that could result in income tax problems for many families.

Returning to the example of giving $5 million of assets with a basis of $1 million to non-spouse beneficiaries, no estate tax would be due under the current law, thanks to

Avoid These 6 Mistakes In Stretch IRA Planning

As talk of the possibility of tax reform continues in Washington, there's an increased focus on the rules for "stretch IRAs." This retirement planning technique, which enables you to preserve assets in an inherited IRA for an extended period, could be targeted in a larger tax reform package. For the time being, however, stretch IRA planning remains a viable option for many people.

But to use a stretch IRA successfully, you'll need to follow a number of important rules and avoid common mistakes made by those who inherit IRA assets.

If you own an IRA, you must take required minimum distributions (RMDs) annually beginning the year after you reach age 70½. Otherwise, you'll be hit with a stiff IRS penalty. Those distributions are taxed at your rate for ordinary income—which could be as high as 39.6%—and are based on a calculation that considers the account balance at the end of the previous year and your life expectancy (or your joint life expectancies with your spouse).

However, beneficiaries who inherit your IRA can arrange for RMDs based on their own life own expectancies, unless they choose to empty the account more quickly. Stretching out the IRA in this fashion can help preserve wealth for younger generations.

With those basics in mind, consider these six common mistakes in stretch IRA planning:

Mistake #1: Your account is titled improperly. When someone dies and IRA assets are inherited, it's crucial to ensure that the account name is titled correctly. For example, if someone other than your spouse inherits your IRA, your name should remain on the inherited IRA account title and it must be indicated that it is an inherited IRA by using the words "beneficiary" or "beneficiary IRA" or "inherited IRA."

Mistake #2: You fail to take RMDs. If the IRA account holder already was taking RMDs at the time of death, inheritors will need to make sure that the RMD is withdrawn for the year in which the account holder died. Failing to meet this requirement triggers a penalty equal to 50% of the amount that should have been withdrawn.

Mistake #3: You, as the primary beneficiary, fail to utilize a disclaimer when appropriate. A qualified disclaimer is a legal document that effectively says you choose not to receive the IRA assets, which then will pass to the contingent beneficiaries listed on the IRA paperwork. This strategy may be preferable if you don't need the money and you intend to pass along the inherited assets to younger beneficiaries eventually. Doing it now means RMDs will be based on the new owner's longer life expectancy.

Mistake #4: You fail to analyze contingent beneficiaries when using a disclaimer. It's important to consider all relevant financial and tax factors before agreeing to pass up inherited IRA assets through a disclaimer. This is not a casual decision. Consider whether the contingent beneficiaries in fact will be able to stretch out the IRA longer under their life expectancies and look at their tax consequences. Younger contingent beneficiaries may be in a lower tax bracket than you are, and if they pay the taxes that could reduce the overall tax bite.

Mistake #5: You take a lump-sum distribution. Some people think they're required to take a lump-sum distribution from an inherited IRA to empty the account immediately. That's simply not true. If you need the money, go ahead and take it. But if you don't have a pressing need, going the stretch IRA route could enable you to preserve wealth longer and generally will reduce tax liability.

A large lump-sum distribution could rocket you into a higher tax bracket and force you to lose more of the inheritance in taxes.

Mistake #6: You fail to analyze spousal rollovers. Current tax law offers greater flexibility to spouses who inherit an IRA. They can roll over inherited assets into their own IRA accounts and set up payouts calculated on their own life expectancies. However, a rollover isn't always the optimal approach for spouses. For instance, if a surviving spouse is under age 59½, payouts from the IRA will trigger the 10% penalty tax for early withdrawals, on top of the regular income tax owed. ●

the $5.49 million exemption. But under the proposed reforms (and barring any exemptions), if beneficiaries carry over the basis on those shares and sell the assets for $5 million, they will have a taxable gain of $4 million, subject to the prevailing tax rates for capital gains.

Of course, this is just a hypothetical example and other rules (e.g., a $1 million exemption) could apply, but the potential for major income tax liability is real. Also, state estate taxes may still be a factor. Once it becomes clear whether estate tax reform will be enacted, and what shape it will take, you may want to meet with your FSA advisor and your accountant to map out a strategy. ●

IRS Adjusts Retirement Plan Limits

Every year, the Internal Revenue Service (IRS) adjusts the amounts you can contribute to employer retirement plans and IRAs, based on inflation indexing. For 2017, the limits are slightly higher in some cases, while others stay the same. Here's a rundown on the key limits for participants:

Limits that will change for 2017

Defined contribution plans – The limit on total annual additions to 401(k), profit-sharing plans, and other such vehicles is increased to $54,000 for 2017 (up from $53,000).

Defined benefit plans – The maximum size of the annual benefit for traditional pensions and related retirement plans increases to $215,000 for 2017 (up from $210,000).

Annual compensation – The maximum amount of compensation that can be taken into account for most employer retirement plan calculations increases to $270,000 (up from $265,000).

Deductible IRA contributions – Phase-outs in 2017 for deductible IRA contributions will reflect the following changes:

- For single filers participating in an employer plan, the phase-out range increases to between $62,000 and $72,000 for 2017 (up from $61,000 and $71,000).
- For an IRA contributor filing jointly who participates in an employer plan, the phase-out range increases to between $99,000 and $119,000 (up from $98,000 through $118,000).
- For an IRA contributor filing jointly whose spouse participates in an employer plan, the phase-out range increases to between $186,000 and $196,000 for 2017 (up from a range of $184,000 to $194,000).

Roth IRA contributions – For single filers, phase-outs for the ability to make contributions increase to a range of from $118,000 to $133,000 for 2017 (up from $117,000 to $132,000). For joint filers, the phase-out range increases to between $186,000 and $196,000 for 2017 (up from $184,000 to $194,000 for 2016).

Limits that won't change in 2017

Elective deferrals – The deferral limit for those who participate in a 401(k), 403(b), most 457 plans, and the government's thrift savings plan remains at $18,000 for 2017. The limit for catch-up contributions to these plans for participants age 50 or over remains at $6,000.

SIMPLE plan deferrals – The limit on earnings deferrals to a SIMPLE plan remains at $12,500 for 2017. The limit for catch-up contributions for participants age 50 or over holds steady at $3,000.

Highly compensated employees – The dollar limit used to define highly compensated employees (HCEs) for employer plans stays at $120,000 for 2017.

IRA and Roth contributions – The maximum amount you can contribute to traditional and Roth IRAs stays at $5,500 for 2017. The $1,000 limit on catch-up contributions for participants 50 or over isn't subject to inflation indexing. ●

Tax Scams For '17

(Continued from page 1)

such as charitable contributions and business expenses or improperly claiming credits such as the Earned Income Tax Credit (EITC) or Child Tax Credit (CTC).

9. Falsifying Income to Claim Credits: Avoid the temptation to falsely inflate your income in order to qualify for certain tax credits. Doing so could lead to large bills for back taxes, interest, or even criminal prosecution.

10. Abusive Tax Shelters: Abusive tax schemes have evolved from illegal domestic and foreign trust arrangements into even more sophisticated strategies. These scams often take advantage of the financial secrecy laws of some foreign jurisdictions and the availability of credit or debit cards issued from offshore financial institutions.

11. Frivolous Tax Arguments: The IRS also describes common frivolous tax arguments made by those who refuse to comply with federal tax laws. Frequently, taxpayers refuse to pay taxes on religious or moral grounds by invoking their First Amendment rights. Those efforts inevitably fail, and the penalty for filing a frivolous tax return is $5,000.

12. Offshore Tax Avoidance: A recent string of successful enforcement actions against offshore tax cheats and the financial organizations that help them shows why it's a bad bet to hide money and income offshore. Taxpayers are served best by coming in voluntarily and taking advantage of the IRS Offshore Voluntary Disclosure Program to catch up on their tax responsibilities. ●

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