

## Don't Be Victimized By These 10 Common Scams

**S**cams of all varieties continue to bilk unsuspecting victims out of billions of dollars each year. In particular, older Americans are being targeted, especially those who have been recently widowed. With that in mind, here are 10 scams to watch out for:

**1. IRS imposters.** This scam proliferates during tax-return season. A caller will say he or she is an IRS agent and claim you owe back taxes. Then the caller threatens you with stiff penalties or a lawsuit—and even arrest—if you don't wire the money immediately. But the IRS doesn't call debtors without sending a notice via U.S. mail first. To be on the safe side, if you get such a call, check with the IRS at 1-800-829-1040 to check the caller's credentials.

**2. Tech support.** Typically, you receive a phone call purporting to be from Microsoft or another software company, and the caller says a virus has invaded your computer. Then you're asked to provide access to your computer and the hacker installs malware that steals personal information. These software companies don't make unsolicited phone calls, so hang up immediately.

**3. Robo-calls.** Are you a victim of those annoying automatic telephone calls? Although the call itself isn't an attempt at ID theft, it helps the crooks build a "go-to list" for future phone scams. Use your caller ID to screen calls and don't answer if someone is

calling from a number you don't know.

**4. Charitable solicitations.** Many legitimate charities call on the phone so it's hard to weed out the real ones from the fakes. Investigate any charity before handing over cash or making a credit or debit card contribution by mail or online. If the charity is for real, the caller won't hesitate to provide additional information. Check out charities at [www.charitynavigator.org](http://www.charitynavigator.org).

**5. Credit cards.** It's not surprising that scam artists are working an angle as credit card companies change their cards from magnetic strips to chips. Someone impersonating a credit card company employee may request information or ask you to click on a link to update your status. But credit card companies don't operate this way. If you have any doubts, call the company directly.

**6. Dating websites.** Initially, scams were based on prying money or sensitive data out of single people who recently have entered the dating scene. But now it has mushroomed into more sophisticated cons aimed at newcomers to religion-based sites. Because you're "dating" someone from your faith, you may be more likely to let your guard down and give access to money.

**7. Widows and widowers.** A typical trick of con artists is to prey on your emotions. Of course, elderly individuals are especially vulnerable



## Markets Encounter Shaky Start To 2016 But Rebound Well

**T**hanks for taking the time to look over our spring newsletter. Even though it seemed as if this was one of the mildest winters in memory, we are enjoying the change in weather and being able to get outside for a little bit (all of our Florida and southern clients seem to have forgotten what winter is, so we figured we would remind them).

After an extremely volatile and turbulent start to 2016, the markets have rebounded nicely and have challenged to overtake all-time highs. This stretch of two months illustrated the importance of maintaining the course during choppy market conditions. If you feel as if your tolerance for risk has changed, please contact us, but we are confident that accounts are properly positioned to weather future storms that we may encounter.

In this newsletter, we wanted to put a focus on taxes and some areas of tax planning that can be overlooked. While it may be too late to do much planning for your 2015 tax situation, it is a perfect time to look at 2016. The first step is to maximize all tools that are available to you: two of the easiest techniques are fully funding employer-sponsored retirement plans and IRAs as well as tax-sensitive investing inside after-tax accounts. Additionally, there are many alternative strategies that may work as well: nondeductible IRAs, the usage of municipal bonds, and dividend-producing real estate investment trusts, just to name a few. As always, if you have any questions about any of our articles give us a call or send us an email. Thank you and hopefully we will see you soon!

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# Do Roth IRA Math Before Converting

The Roth IRA conversion has been one of the most popular retirement planning techniques in recent years and there's nothing to indicate that this trend will change. The main attraction is that the money you take from a Roth after the conversion is generally free from income tax and you don't have to dilute your nest egg with required minimum distributions (RMDs) as you do with traditional IRAs. For many retirement-savers, it's a good deal.

But the benefits of Roth IRAs come at a price: When you convert funds in a traditional IRA to a Roth, you must pay tax on the conversion amount, just like you would with a regular distribution from an IRA. The trick is to minimize the tax liability when you pull off this maneuver.

Normally, withdrawals from a traditional IRA are fully taxable at ordinary income tax rates, currently reaching as high as 39.6%. In addition, these distributions increase your exposure to the 3.8% surtax on net investment income, as well as other potential adverse tax consequences such as the personal exemption phaseout (PEP). Furthermore, you

must begin taking RMDs from your traditional IRA accounts after you reach age 70½—no exceptions.

Once you convert to a Roth, “qualified” distributions after five years are completely exempt from income tax. Qualified distributions, for this purpose, include withdrawals you take after age 59½, that are made because of death or disability, or are used for a first-time home purchase (up to a lifetime limit of \$10,000). And you don't have to take RMDs during your lifetime no matter how long you live.



You may be able to contribute directly to a Roth IRA, but that option is phased out for upper-income taxpayers. A conversion may be your only viable route.

If you're thinking about a Roth conversion this year, you might consider limiting the amount you convert to the maximum you can add to your income without moving into a higher tax bracket. For example, if you expect to be in the 25% bracket and have another \$50,000 to spare before crossing into the 28% bracket, you could take this opportunity to convert \$50,000 from your traditional IRA to a Roth. Not only is that amount below the thresholds for the 3.8% surtax and PEP, the tax rate is limited to 25%. You then could repeat this strategy over multiple years to keep your tax liability at a reasonable level.

Finally, you're holding another tax card up your sleeve: If it suits your needs, you might decide to “recharacterize” part of the converted amount back into a traditional IRA. This could be a good idea if the value of the account declines significantly after the conversion. You have until the tax return due date for the year of the conversion plus extensions to recharacterize, giving you plenty of time to make an informed decision. ●

## 7 Tax Breaks Set To Last Forever

After years of passing “tax extender” laws, Congress finally enacted tax legislation in 2015—the Protecting Americans from Tax Hikes (PATH) Act—that permanently restores several key tax breaks for individuals. These seven tax provisions are now a permanent part of the tax code until, if ever, Congress changes them. They are:

**1. American Opportunity Tax Credit.** Before PATH, parents could claim a maximum \$2,500 American Opportunity Tax Credit (AOTC) for qualifying higher education expenses, subject to phase-outs based on modified adjusted gross income

(MAGI). But the maximum credit was scheduled to drop to \$1,800 in 2017 with lower phase-out levels. The new law preserves the higher AOTC.

**2. Sales tax deduction.** Before 2015, taxpayers could choose to deduct state and local sales taxes instead of claiming the usual deduction for state and local income taxes. This optional deduction, especially valuable if your state has no income tax, has been restored retroactively for 2015 and made permanent.

**3. IRA transfers to charity.** Under a provision that had expired, if you were over age 70½ you could transfer up to \$100,000 (\$200,000 as a

married couple) directly from an IRA to charity—including amounts paid as required minimum distribution (RMDs)—with no tax consequences. The PATH Act restores this rule for 2015 and makes it permanent.

**4. Conservation deductions.** If you grant a conservation easement for property you own, you get a deduction based on the easement's value. Previously, that deduction could be for as much as 50% of AGI (100% for farmers and ranchers), rather than the usual 30% limit, and there was a 15-year carry forward period for excess amounts instead of five years. Both enhancements are restored

# Section 529 Plans Are Getting Even Better

**F**or parents saving for their children's college education, a Section 529 plan may offer several advantages. Now a new tax law—the Protecting Americans from Tax Hikes (PATH) Act of 2015—enhances those potential 529 benefits.

Section 529 plans, operated by individual states, let families set aside money to cover future education expenses of account beneficiaries. If certain requirements are met, investments in the plan grow without being eroded by current taxes, and distributions to pay “qualified” expenses—which include tuition, fees, books, supplies, equipment, and room and board for full-time students—also aren't taxed.

Now the PATH Act permanently extends a rule treating computers and related equipment as qualifying college expenses. This provision had expired after 2014, but was restored retroactive to 2015 and made permanent.

There are two main types of 529s: prepaid tuition plans and college savings plans.

**1. Prepaid tuition plans.** This type of plan is designed to keep pace with the rising cost of college tuition. Suppose it currently costs \$25,000 a year to send a child to a state university. You can spend \$25,000 now to buy shares in the plan for an eight-

year-old. When the child is ready to go to college in 10 years, the shares you bought will pay for an entire year of tuition—no matter what it costs at that point. (You don't have to make a single big initial deposit to a prepaid plan. Later contributions will be credited according to the costs that prevail at the time.)

A prepaid tuition plan ensures that the money you put in will grow to keep up with rising costs. And returns tend to be far higher than those on most conservative investments. You don't risk losing your principal, and your investment generally is guaranteed by the state.

**2. College savings plans.** In contrast to a prepaid tuition plan, a college savings plan doesn't guarantee that your returns will keep pace with rising college costs. But these plans have the potential to produce higher returns than a prepaid plan depending on the performance of the investments you choose.

Usually, these 529s offer an asset allocation strategy geared to the current age of beneficiaries or the year when

they'll enter school. Such strategies may use more aggressive investments in the early years and switch to more conservative options later.

You're not obligated to use a Section 529 college savings plan for a college in your state, and you're free to use another state's plan if you like its features. Keep in mind, though, that in-state plans may offer state



income tax deductions or other benefits for residents.

These plans also offer flexibility if an intended beneficiary doesn't go to college or if there's money left over after graduation. In either case, you can switch to a different beneficiary. Typically, a plan will allow one such change a year.

The PATH Act includes a couple of other significant changes in this area. For one thing, it adjusts a rule relating to taxable distributions for *non-qualified* expenses. Under the new law, each such distribution will be taxable based on the amount only in that particular account, rather than in all the Section 529 accounts you've established. In addition, if a Section 529 plan distribution is used to pay for tuition and subsequently is refunded—for example, if your child leaves school—the new law permits you to contribute that amount to another 529 plan within 60 days.

Finally, a Section 529 plan also offers gift-tax advantages. Normally, you can give anyone up to a specified amount—\$14,000 in 2016—without owing gift tax. That amount is doubled to \$28,000 for joint gifts from a married couple. But with 529s, you can contribute an amount equal to five years' worth of gifts if a proper gift tax return is filed. That means you could put \$70,000 in an account for one beneficiary—or \$140,000 if you give with your spouse—completely free of gift tax. ●

permanently, retroactive to 2015.

## **5. Qualified small business stock.**

Under a former law, investors could exclude 100% of the gain from the sale of qualified small business stock (QSBS) that they acquired before 2015. That amount was scheduled to drop to 50% for QSBS purchased after 2014. Now the 100% exclusion is permanent.

## **6. Child tax credit.**

Parents had been entitled to a child tax credit of up to \$1,000, subject to a phase-out, with an additional refundable credit of 15% of earned income that exceeded \$3,000.



But that threshold was set to increase to \$10,000 in 2017. The PATH Act

restores the lower threshold and makes it permanent.

## **7. Educator expenses.**

Finally, teachers and other educators had been able to deduct up to \$250 of their out-of-pocket classroom expenses. The new law restores this deduction, retroactive to 2015, and makes it permanent. Future maximums will increase with inflation.

The PATH Act also extends other individual tax breaks, as well as business provisions, and makes some of them permanent. ●

# Show More Life With A Living Trust

In some financial circles, a revocable living trust has been touted as a staple of estate planning that can even be used to replace a legally valid will. Normally, however, a living trust is viewed as a supplement to a will, not an outright replacement. Here's how this estate-planning technique may serve you best—in life and death:

It's important to understand the basic differences between a will and a living trust. Your "last will and testament" is a legal document determining how, when, and to whom your possessions will be distributed upon your death. It doesn't have any effect until you die. However, a will normally must go through probate before distributions are made. (Property passing through joint rights of survivorship may be one exception to that rule.)

In addition, a will alone may not achieve all of your estate-planning objectives. For instance, you can't impose any conditions on gifts made through a will.

A revocable living trust also is a legally valid document, and you may be able to transfer securities, real

estate, or other property to the trust, and you can give the trustee power to manage it on behalf of the designated beneficiaries. Typically, you might name yourself as both the trustee and the initial beneficiary of the trust. At the same time, you can designate other family members—say, your spouse, your children, or both—as secondary beneficiaries entitled to receive remaining assets in the trust when it terminates.

With a living trust, you'll retain a high level of control while you're alive. For instance, you may be able to sell trust assets and keep the cash, amend the terms of the trust

(for example, by changing secondary beneficiaries), or revoke it entirely. Unlike a will, a living trust allows you to place restrictions on gifts to beneficiaries. The trust becomes irrevocable when you die.

The main advantage living trusts have over wills is that the property

transferred to the trust doesn't have to go through probate. Depending on the state in which you live, probate can be time-consuming. In addition, unlike a will, a living trust isn't available to public inspection, ensuring complete privacy with respect to the assets it holds and distributes.

But don't assume that a living trust is a panacea. It will require some time and work on your part to make all of

the necessary arrangements. Also, if you devise a "pour-over will" to catch assets not in the living trust, the will must be probated anyway. Finally, despite some

claims to the contrary, there are no estate-tax benefits for property transferred to a living trust.

Clearly, a living trust may provide valuable benefits, but it usually works best hand in hand with your will. We can help you work with your attorneys to find a solution that works for you. ●



## 10 Common Scams

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after the death of a loved one. It's not unusual for a criminal to pretend to be a banker or other professional to coerce you to hand over funds. Rely on reputable financial planners you know and trust and close family members to steer you in the right direction.

**8. Medical ID theft.** ID theft often is associated with financial information, but loss of medical information can be just as damaging. Just imagine someone running up costs for expensive drugs, doctor visits, and even surgery under your name. What's more, unlike theft of credit card data, you're often held liable for these purchases. Don't volunteer your particulars (for example, Social Security and insurance

account numbers) unless you're certain it's for a valid reason. Check with your insurer about any charges you don't understand.

**9. Gift card vouchers.** If you're targeted for this scam, you receive an unsolicited email offering you a free gift card from a well-known retailer or restaurant if you click on a link. It can look legitimate—the scammers will go to great lengths to replicate logos and corporate designs—but often it isn't. Clicking on the link will install malware on your computer that can siphon away personal data. No matter

how appealing an offer is, don't click on links you have not verified.

**10. Counterfeit apps.** Finally, in a highly publicized incident, Apple developed some applications that were found to contain vicious malware that spied on consumers. While Apple believes it has purged these malicious apps, similar occurrences could lead to loss of personal data. Try to use only well-known apps and consider reading

reviews before purchasing them. These are just 10 of the scams currently making the rounds. Be on your guard and be skeptical of anything that doesn't seem just right. ●

