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2015 Tax Year Review

Despite the lack of serious effort by Congress to move our country's economic future forward, our consumer based economy remains on the slow growth course that was set forth by our present administration, in its' first term. That being said, much of the success within our economy over the past few years has come from the fact that we got off the rollercoaster ride of the prior decade. So the slow growth cycle that we find ourselves in may be for the best right now.

Unemployment rates are at an historic low, although many think that the numbers do not properly reflect the actual true amount of unemployed in our country. Interest rates have been kept artificially low by the government in order to encourage growth and stimulate the economy. But there are consequences to pay if they keep interest rates at next to nothing for too long. Therefore, should our economy continue to show steady, consistent growth over the next year, we will see a rise in interest rates (hopefully a very slow rise).

The stock market has continued to perform very well this past year, approaching the 18,000 range. This is mostly due to the low interest rate environment the Fed has persistently maintained over the past three (3) years. There's really no other place to put your money with any expectation of making something on it. And surely there is no safety in the stock market.

We have just recently seen how fragile the marketplace can be, as just several months ago we were watching some of the biggest free falls in equities that have ever been recorded take place over a single day. The near mention of the Federal Reserve considering raising interest rates is enough to send investors to the window to collect on their gains. Once there is actually another place to put your savings and making something from it, safely, the stock market will likely suffer. Or at least the overall growth rates of the market should slow down to the rate of growth that we presently sustain.

What this means is that if you are preparing to retire soon and will need to tap into your retirement accounts (401k's), you should consider the exposure to the stock market in your overall investment portfolio. Timing is a big issue with retirement. Should you get caught in a downturn of the stock market just as you are in need to the funds to live on, it could be disastrous to your long term plans. Should you be years away from retiring, don't pay any attention to the dips and valleys of the marketplace. Just continue to invest for the long term, and wait your turn at the retirement trough.

Almost all of our real estate markets have either fully recovered or are somewhere along the recovery stage. The residential markets continue to improve as demand continues to be greater than the supply in certain areas around our city, and country. Should the overall improvements in our economy discussed above continue, I see the potential for substantial growth in the residential real estate markets over the long term, as demand should remain higher than supply. As the economy continues to improve, more people will be able to afford a home, which should in turn keep demand at a peak!

Although Congress has done very little to change the tax code over the past few years, they do continue to monkey with it. Further complexities and refinements make the process of dealing with your income taxes far more difficult than when I first started working as an income tax professional some 30+ years ago. The basic premise of completing your returns is the same; they have just added many layers of complexity, as Congress try to find the best way to limit your deductions and personal exemptions, and generate more tax revenue (to waste).

Taxes remain modest, if not reasonable for the lower income wage earners of our country. However, as I warned you several years ago, for the higher income earners and “elite” status earners of our country, “the party” was over. With the Bush tax cuts having been pushed well aside, they (the big earners) are fitting the bill right now. The numbers don’t lie.

The top 50% of all taxpayers in our country pay 97.2% of all individual income taxes paid. The dividing line for the top 50% was $36,000 adjusted gross income for 2012. The top 25% pay 86.4% of the taxes paid. The top 10% pay almost half (47.9%) of the tax load. And the very top 1% of all income earners in this country pays a whopping 38.1% of all the income taxes paid to the government for 2012. The dividing line for the top 1% was $435,000 adjusted gross income. (The numbers for 2012 are the latest available.) I believe that 2013 and 2014 statistics will bear the same information. True socialism is what you’re looking at; the wealthy are paying the load right now!

One of the more serious changes coming out of Congress this year is the elimination of the “File & Suspend” and “Claim Now, Claim More Later” provisions of Social Security benefit laws. The change means that retirees filing for Social Security will no longer be able to take advantage of these strategies which were designed to increase their monthly Social Security benefits.

However, there is still a short window for people who were planning to take advantage of this disappearing provision in the law. After April 20th, 2016, spouses and other dependents will no longer be able to collect off of suspended benefits, which completely eliminates any incentive to file and suspend benefits. If you are eligible to take advantage of “File & Suspend” and are considering doing so, now is the time to take action (see File & Suspend info as part of the 2015 Tax Change Summary).

The internet has brought some wondrous things into our lives; like internet banking, on-line investing, shopping of any and all kinds, amazing research capabilities, and communication skills in so many ways that I get a headache just thinking about how much time these “kids” waste posting their lives away? That’s not to mention the entertainment part of the World Wide Web, as it was once called not long ago. However, as is normally the case, good thing usually come with the bad consequences, and the internet has begun to affect many of our lives in an adverse way!

As many of you are already aware of, "identity thief" has become a BIG issue in this country over the recent past. If you haven't been affected by it, there is a very good chance you could be hit sometime in the near future. Even the IRS is not perfect when it comes to protection of our personal information, having recently admitted that they were hacked, which may have compromised some taxpayers' info. I personally have had more clients run up against fraudulent return having been filed against their tax ID numbers this past tax season than ever before. There were several very large companies that reported massive losses of personal data to hackers over the past year, including Target, and the Coca Cola Company.

Therefore, please take extra precaution to safeguard your personal data, including and particularly your <u>Social Security</u> number. Do not send unprotected documents or information attached to or within emails, as <u>all</u> emails are hack-able. Should you find yourself as a victim of ID thief, there are many things you will need to do to restore your "good" credit (should it be "good" prior to your getting hit), among other issues that stem from ID thief. However, your first call should be to the local authorities to notify them of the crime! Getting to the IRS to notify them is just part of the process. The point is, be very careful with your personal information. Don't let yourself become a victim.

The IRS recent published the following list of seven (7) steps to making ID protection part of your routine.

1. Read your credit card and bank statements carefully.
2. Review and respond to all IRS/State DOR correspondence.
3. Review your (3) credit reports once a year (you can get them for free).
4. Review your annual Soc. Sec. Income statement for excessive income.
5. Read your Health Insurance statements for unknown claims.
6. Shred all documents with personal and/or financial information.
7. Use direct deposit for your tax refunds.

Moving on to a very close subject matter, I have recently been getting many calls from clients telling me that the IRS called them and told them that they were sending someone to come arrest them for one of many "stupid" reasons these scammers can come up with to scare people. If you have caller ID and you're smart enough to not answer your phone for a number you don't recognize, then they leave you a voice mail making treats and leaving a call back number. Don't fall for it!

First and foremost, the IRS will NEVER call you to ask you for anything! NEVER!!! They will send you a letter (always) prior to any personal contact. And personal contact is very rare. Secondly, if the IRS was going to send someone to arrest you, do you think they would call you ahead of time and tell you they're coming to get you? There are many scam artists out there; calling from many places all over the world; trying to find that one person that will fall for their tricks. Don't be that one foolish person that makes their day.

I have personal received "the call" from a scammer myself, claiming to be an IRS agent. After almost 45 minutes of my keeping him on the phone, I lied and explained to him that he was talking with an IRS agent and the phone went completely dead on the other end. For me, it was loads of fun. But for you, I understand it can be a bit unnerving. Don't fall for it. Have fun with it just like I did!

One of the biggest changes to take place within the tax code in the past decade, the *Affordable Care Act*, is now in full swing, forcing almost all taxpayers living in the US to secure and maintain health insurance on themselves and their dependents. The process of implementing the law has started slowly, but recently it has picked up steam. In the first couple of years, the penalties for not carrying the proper health insurance have been relatively small. However, in 2016, depending on your Modified Adjusted Gross Income (MAGI), the penalties can grow into the thousands; yes, thousands for dollars!

The point is that the cost of the insurance is almost becoming equal to the penalties the IRS will charge you for failing to have it. And I am anticipating that they will continue to push the penalties forward until you are paying your share of the insurance costs, either way. Therefore, should you not presently have health insurance you might as well go get it and not deal with a penalty for not having it. The costs are getting close to the same. And having the health insurance could be of benefit to you and your family for the same dollars out of pocket you may be forced to pay in tax penalties. Therefore, my advice is go get insured if you're not presently!

As I mentioned before, Congress has done little to change the tax code for this coming year. Most of the serious changes to the code were made over the past few years; those changes have recently become effective or are coming into effect this year. Overall tax rate adjustments (increases), capital gains tax rates increases, itemized deduction phase-outs, Medicare surcharge taxes on passive income, ACA rules and penalties forcing the acquisition of health insurance, additional Medicare tax on surplus wages earned; these are just a few of the "new" changes and additions that many taxpayers are facing today. All of them forcing new and additional taxes on the American public. All of them raising new tax dollars for our government to use in their attempt to balance the budget.

Consequently, income tax planning, especially for retirees, is now far more important than ever before. Planning for future events, such as retirement, or major asset sales have become critical in nature. Failure to do so could cost you many thousands of your hard earned dollars that you will likely need later in life. So when considering or anticipating that "big" event that could substantially change or life or lifestyle, getting advice before jumping "into the frying pan" is most important. Failing to do so is like "walking on egg shells". Eventually something's going to crack.

For those of you that are old enough to remember, it's like the *Frame Oil Filter* commercials that used to be on TV; "Pay me now for a new oil filter, or pay me later for a new engine" was their slogan. Either pay me now to get some advice on how to best manage your coming tax issue(s), or pay them more later! It's called the "Golden Sand Trap" by the industry. Don't get caught in the quick sand when you retire.

As most of you are aware, the complexities and detailing of information to properly complete your income tax returns that is now being required by the IRS and our new tax code changes continues to grow. Although the information you supply us to get the job done seems to be relatively the same, the effort that goes into completing your tax work has correspondingly expanded along with the "new" rules mentioned above.

I am often asked, “why am I paying more to get the work done when the information I am supplying is about the same as my prior years’ work?” Unfortunately, the answer lies in the above. As Congress continues to expand and reshape the tax code, they also continue to make it more difficult to complete the work. And therefore, correspondingly, fees for the work are rising much like the new taxes you are now facing!

Over the many years that I have been involved with the preparation of income taxes, I have found that most of our clients use our services because they don’t feel comfortable doing their own tax returns. Mostly because they fear serious retribution from the Federal and/or State revenue agencies should they make a mistake in reporting their income or deductions.

Based on Congress’s unwillingness to make any serious reforms to our present tax code, I see no reason why the complexity of the process will not continue to govern your need to refrain from attempting the unknown. What were simple returns in the past have been made far more difficult to properly complete with the new Affordable Care Act rules that were recently put into place. Even for a skilled surgeon!

In an effort to fight terrorism, and at the same time gain knowledge of the whereabouts of all US Citizens’ foreign assets (including foreign investments and cash held outside the US), Congress passed tax laws a few year back called the FBAR rules, that require all US Taxpayers to disclose all such assets. The disclosure is made annually, in some cases on your tax return and in other cases on a separate tax filing called an FBAR return (form 114), These filings are for all bank account that are *owned* or to which you might have *signature authority* in which the amount of that account was *greater than $10,000* at any time during the year. You do not actually have to own the account to be subject to the FBAR filing rules.

The good news is there are no taxes to pay for disclosing the foreign asset(s). The bad news is that if you failed to report the bank account(s) (or other assets), the penalties are the greater of $100,000.00, or 50% of what’s in the accounts. That’s right; you saw it. Even if you just make a mistake and simple forget to report any asset, you could lose it all, or more! Therefore, should you have any assets that are held outside the US in 2015 or prior years, it is imperative that you make us aware of them! Unfortunately, the creation of these laws is one of the many results of 911 and the terrorism that has recently changed our world.

The past few tax seasons have been very difficult for me, both personally and professionally, and I see no relief from Congress anywhere in the near future. The need to make changes to my practice is necessary; in fact overdue! Some changes apparent; others not quite so.

This coming tax season, in an effort to reduce the paper and postage costs of the preparation process, we will not be forwarding you a copy of your completed returns as we have for the past 33 years. Your completed returns will be post on our website, and you will be notified by email and given instructions how to retrieve them for your review and execution. In the future, you will be able to retrieve them for up to three (3) years. There will be other changes to come, so stay tuned!

Attached to the email, you will find the firm’s Tax Changes Summary for 2015. The information provided within this material is only a brief overview of the changes made for 2015 and future years. It is for informational purposes only and is not intended for your use without the consultation of a tax professional. If you have further questions or concerns regarding these or any other issues and how they may affect your particular situation, please contact our office at your convenience and we will be happy to assist you further in your quest for understanding and knowledge.

If you actually gotten this far, then congratulations. You are likely one of few. But you are now far more knowledgeable about our economy and the taxable world we live in. Sorry for another lengthy cover letter. Maybe I’ll become a writer some day!

Happy Holidays and Good Wishes for the New Year!

Prepared by Mark J. Popkin for the firm.