Money Matters

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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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Grandparents Can Become Big Spenders For Their Offspring

The cost of raising children is well known. Recent estimates put it at about $250,000 before a child even enters college. But it's not just parents who end up paying a hefty "price." It's grandparents, too.

According to a January 2017 article in the *Miami Herald*, grandparents spend an average of $2,383 a year just to benefit their children's children. They pay for toys, school supplies, college savings, and even extracurricular lessons.

This breakdown shows the percentage of grandparents who give money to grandkids for each purpose:

- College savings: 19%
- Clothing: 55%
- Toys: 58%
- Non-cash gifts: 39%
- Cash gifts: 42%
- School vacations: 27%
- Family vacations: 16%
- Meals out/entertainment: 38%
- Extracurricular activities: 14%
- Allowance/payment for chores: 10%

And it's not just money that grandparents give. More than half of millennial parents say their parents provide at least an hour of child care or household help each week. The average grandparent went all out, spending 48 hours a year on tasks including primary child care, babysitting, homework help, and transportation to after-school activities.

Some 40% of grandparents said they offered the help without being asked, and 43% said they did it because "it makes me happy." Just make sure you build this into your retirement budget.

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 an $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 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, meet with your financial and tax advisors 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

Four Tax-Wise Ways To Donate Gifts To Charity

How can you donate to charity? Let us count the ways. Although there are many variations on these themes, there are four basic paths for making contributions to charitable organizations that let you take tax deductions while pursuing your philanthropic goals. They are:

1. Direct contributions: This is the easiest method. You simply write a check or make an online donation. If you're giving tangible property, such as artwork, you'll need to deliver it physically to the charitable group.

Most such contributions are fully deductible on your tax return, but there could be limitations on the size of your write-off based on your adjusted gross income (AGI) for the year:

- Contributions to public charities are limited to 50% of your AGI.
- Contributions of appreciated property (for example, publicly traded stocks) to public charities can't exceed 30% of your AGI.
- Contributions of appreciated property to private foundations are limited to 20% of your AGI.

But in all of these cases any amount that exceeds the limits can be claimed on the following year's return, and such "carryovers" may continue for up to five years.

2. Donor-advised funds: With a donor-advised fund, you give your money to a fund that's set up with an institutional partner. There might be a minimum contribution amount, and the fund may charge fees to cover its costs. But one big advantage of this approach is that you can make a donation to the fund and get an immediate tax deduction and then decide later where you want your money to go.

Once you choose to give a specified amount to a particular charity, the fund will verify that the organization is eligible to receive tax-deductible contributions. Once your grant is approved, the money goes to the group with an indication that it was made on your recommendation. You also can request that your gift be made anonymously.

3. Charitable gift annuities: This approach is somewhat more sophisticated than direct gifts and donor-advised funds. A charitable gift annuity is a contract between a donor and a charity. You agree to transfer money, securities, or other assets to the organization, which in turn agrees to make specified payments to "annuitants"—usually you or you and someone else you designate.

What are the tax consequences? As the donor, you're entitled to a charitable deduction in the year you make your donation to the charity that is adjusted to account for the expected payments you'll receive, based on your life expectancy and other factors.

4. Charitable trusts: There are two main types to consider: the charitable remainder trust (CRT) and the charitable lead trust (CLT).

With a CRT, you set up the trust and transfer selected assets to it. The charity often acts as the trustee and manages the assets. During the trust term, you (or another beneficiary or beneficiaries you specify) receive regular payments from the trust. The CRT may last for a term of specified years or your lifetime. Finally, when the trust ends, the remaining assets from your contribution (the remainder) go to the charity. You get a current tax deduction based on the projected value of that remainder.

A CLT works the opposite way. You still transfer assets to the trust, but annual payments go to the specified charity, and the remainder at the end of the trust term goes to the beneficiaries you designated.

Regardless of whether you use a CRT or a CLT, the annual payments may be based on a fixed amount or a percentage of assets. Other special rules apply, so be sure to obtain expert guidance.

This is a brief overview of current rules. But these approaches could be affected by proposed tax changes. We'll keep you up to date on any changes. ●

$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. ●

Teach Employees About Computer Scams

Computer criminals seem to be stepping up their efforts to steal your personal and financial information—and your money.

The two most common approaches are the "tech support" scam, aimed primarily at individuals, and the "ransomware" scam, mostly used against businesses.

In a typical tech support scam, unsolicited phone callers say they are calling about "Windows," the popular operating system of computer software giant Microsoft. Don't believe it.

Microsoft says it never makes unsolicited phone calls about Windows computer problems.

Do not allow such a caller to take control of your computer. Hang up the phone immediately. This scam has been around since 2009.

Ransomware schemes have been around even longer, since 1989 when a disturbed biologist sent infected floppy discs to an AIDS conference sponsored by the World Health Organization.

This scam is aimed at businesses primarily because all it takes is for one employee to click on a link that then allows a scammer to take control of a business's computer system by shutting down the system or paralyzing it with encrypted, unintelligible jargon.

The scammer then demands a ransom, usually to be paid through an untraceable virtual currency such as bitcoin, to unlock the system and return it to normal.

The Federal Bureau of Investigation estimates that since 2015, U.S. companies have paid a total of $25 million to ransomware scammers.

The ransomware scam can start with a phone call much like the ones used by tech support scammers. In such a case, an employee is urged to allow the caller to obtain access to a business's computer system. Again, don't do it! Ever!

Today's version of the increasingly complicated scam also can start with a "phishing" email that asks a business computer user to click on a link to a website, article, or photograph that appears to be legitimate.

Scammers, in fact, are adept at creating legitimate-looking company names, fake caller IDs, and bogus company logos.

Business owners may be able to avoid these pitfalls by educating their employees about ransomware scams and how they work.

First, tell your employees never to take an unsolicited phone call from a stranger and then allow the caller access to your company's computer system.

Tell your employees not to rely on caller ID numbers to authenticate calls.

Also tell them about phishing emails that offer information or rewards if an enclosed link is clicked on.

Tell them never to click on a link from an unknown source, even if the email contains a legitimate-looking company name and logo.

If your employees don't know the source of an email, tell them not to click on a link or attachment – ever! ●

Tax Scams For '17

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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 inflate deductions or expenses on your return to underpay taxes and possibly receive a larger refund. Overstating deductions for charitable contributions and business expenses or claiming invalid personal credits 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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