



## Kranz & Company LLP

# Year-End Newsletter

December 2015

### Special points of interest:

- Looking Ahead to 2016
- Social Security: Changes to Benefit Strategies as of May 1, 2016
- IRS "Scam" Alert
- Social Security Taxes Remain Same in 2016
- Document Locator Checklist & Worksheets

### Dear Clients and Friends,

In recent years we have discussed how complex our tax filings have become with all the new add-on taxes, multiple tax brackets and rates, and numerous thresholds that trigger various taxes and/or eliminate credits and deductions.

However, in 2015, we would like to highlight the ongoing and increasingly more problematic issue of identity theft. After acknowledging earlier this year that hackers breached one of its popular online apps, the IRS has promised more identity theft protection in the 2015 filing season. The IRS along with tax accountants have identified and tested many new data elements in returns to help detect and prevent identity theft related filings. The IRS is also working to prevent criminals from assessing tax-time financial products.

Budget reductions have decreased the number of agents available to provide services to taxpayers and enforce the tax laws. Overall IRS employment has declined 15%. As resources have decreased, the responsibilities of the IRS have expanded dramatically. This is not a very good formula for the problems we face.

Taxpayers have to be more aware, vigilant and protective of all their financial information including tax returns, financial documents and anything that would provide a criminal with information. Even though the IRS has put into place procedures to help detect and prevent identity theft, we believe the criminals will always remain one step ahead.

**Please note: the IRS and State tax authorities will never contact you by telephone or email.** Criminals have become very adept at creating official looking emails and sounding very official on the telephone. These are scams. Delete the email. Hang up the phone.

If you ever have any questions, please contact our office and we will take whatever action is necessary to help you protect your identity. But this all starts with you, protecting your tax and financial information, and filing early. Yes, filing early is the best way to stop any criminal from filing a tax return using your social security number and tax information.

The entire staff at Kranz & Company wishes you and your family a Peaceful, Healthy and Happy New Year.



For the latest news on tax developments, useful articles and information, and helpful links, visit our website at [www.kranzandco.com](http://www.kranzandco.com)

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## Looking Ahead to 2016

### Gift and Estate Taxes

- Save on gift and estate taxes by making gifts sheltered by the annual gift tax exclusion. In 2016, you can give \$14,000 to each of an unlimited number of individuals – but you cannot carry over unused exclusions from one year to the next. Note that the \$14,000 can be paid in installments over the year.
- Review your estate plan to see if you should utilize the increase in the federal lifetime gift and generation-skipping tax exemption and estate tax exemption. The exemption goes from \$5,430,000 in 2015 to \$5,450,000 in 2016, an increase of \$20,000.

### Estimated Taxes

- Self-employed taxpayers should make sure to pay quarterly estimated tax payments to avoid unpleasant surprises and minimize any Underpayment of Estimated Tax penalties when their returns are filed.
- You should advise your CPA of any major changes in your life (i.e. marriage, divorce, children, employment, retirement) or changes in your income (i.e. Capital Gains) so that your estimated tax payments can be adjusted accordingly.
- Not all states follow the federal exemption amount, which can impact your estate planning. For New York State residents, the basic exclusion amount is \$3,125,000 for dates of death on or after April 1, 2015 and on or before March 31, 2016. This amount increases annually until the basic exclusion amount equals the federal exemption amount for dates of death on or after January 1, 2019. Note that unlike Federal law, New York State does not provide for portability of the deceased spouse's unused exclusion.

### Retirement

- The limit on elective deferrals to 401(k) and similar plans remains unchanged at \$18,000 in 2016. If you are age 50 or older in 2016, you can make a "catch-up" contribution of an additional \$6,000. Contact your payroll department to change your contribution.
- The limit on contributions to an IRA remains at \$5,500 for 2015. The "catch-up" contribution for those aged 50 or older in 2016 remains at \$1,000.
- If you are turning age 65, you must sign up for Medicare during the three months before the month of your birthday and the three months afterward, unless you are already collecting Social Security. You cannot opt out of Medicare Part A coverage (hospital insurance), even if you are covered by an employer's group health plan (see our website for additional information).

### Required Minimum Distributions from Retirement Plans

- Once you reach age 70-1/2, you must take required minimum distributions (RMDs) from your traditional IRA, SEP IRA and SIMPLE IRA plans. You are also required to take RMDs from your 401(k) plan, 457 plan, or other employer-sponsored retirement plan UNLESS you are still working, not an owner of 5% or more of the business that sponsors the plan, and the plan allows deferral of RMDs until you are no longer employed. Note that Roth IRAs do not require distributions until after the death of the owner.
  - You must calculate your RMD separately for each IRA account, however you can withdraw the total amount from one or more IRA accounts. RMDs from accounts for 401(k) plans or other retirement plans must be taken separately from each of those plan accounts.
  - Inherited IRAs have different RMD requirements depending on who the beneficiary is, and if the account owner died before the RMDs began. However, in the year of the account holder's death, the RMD is the amount the account holder would have received, and must be paid by year-end.
  - Failure to take a required withdrawal can result in a penalty equal to 50% of the amount of the RMD not withdrawn. If you turn age 70-1/2 in 2016, you can delay the first required distribution to April 1, 2017. Doing so will mean you have to take a double distribution in 2017 – the amount required for 2016 plus the amount required for 2017. However, be aware that bunching income into 2017 might push you into a higher tax bracket.
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## Social Security: Changes to Benefit Strategies as of May 1, 2016

The “File and Suspend” and “Restricted Application” strategies for collecting social security benefits are being changed. Current beneficiaries who have implemented these strategies will be grandfathered in, but there is a limited window of time available for those between ages 62 and 66 to utilize any strategies. The planning is very complex, so we suggest you consult a CPA about your unique situation.

- **“File and suspend”** allows you to file for benefits at normal retirement age to allow a spouse to collect spousal-only benefits, or for a dependent child to collect benefits, and to suspend payment of your benefits - which will then grow at 8% per year until you reach age 70. It also allows you to change your mind if you suddenly need money before age 70, and receive a lump-sum payment retroactive to the date you filed your application, less the 8% increase. **The change:** once you “suspend” payment of your benefits, no one can collect benefits based on your record. The lump-sum payment provision is also being eliminated.
- **If you will turn 66 on or before May 1, 2016**, you should consider filing for Social Security and suspending your benefits by **April 30, 2016** to be grandfathered under the existing rules, unless you plan to file a claim for restricted spousal benefits.
- The **“Restricted Application”** strategy allows a higher earning beneficiary who has reached normal retirement age to choose to restrict the application to spousal benefits only. The higher earner’s benefits will then continue to grow at 8%. **The change:** this option will be ended and when you apply for social security benefits, at any age, you will automatically be given the higher of your own benefit or the spousal benefit.
- Those who are age 62 or older on January 1, 2016 will be grandfathered and still be allowed, at age 66 (normal retirement age), to restrict the application to spousal benefits.

Please see our memo on “Social Security: When Should You Collect Benefits” on our website for further information.

## IRS “Scam” Alert

- Scammers are now using regular mail to send phony IRS notices, with authentic looking letterhead, to trick people into sending money or personal information.
- The latest email scam involves emails appearing to be from the IRS advising you to “update your IRS e-file immediately” or with a subject line that says “final notice – IRS Tax Audit”. They may contain a link to a fake website intended to appear to be the IRS web site. “USA.gov”, “IRSGov” (without a dot (.) between IRS and gov), and sites at .net, .com, or .org ARE NOT the official IRS website. The IRS never utilizes e-mails, texts, or other social media to request personal or financial information or to alert taxpayers of refunds. Do not reply to, open any attachments, or click on any links from any suspicious e-mails from the IRS or from any other questionable source.
- The IRS continues warnings about phone scams with callers claiming to be from the IRS and saying taxes are owed and must be paid immediately by a pre-paid debit card or wire transfer. Those who refuse to pay are threatened with arrest, deportation, or loss of a business or driver’s license. The caller often knows the last four digits of the victim’s Social Security number, can make caller ID appear as if it is the IRS, and will use a common name and fake IRS badge number. If they leave a message with a phone number, DO NOT call back. If in doubt, call your CPA or do a Google search of the number.
- Be aware that **the IRS does not ask for payment by a pre-paid debit card or wire transfer**. Also, the IRS will not take a credit card number over the phone.
- Report scam phone calls to the Treasury Inspector General for Tax Administration at 1-800-366-4484. Forward scam IRS e-mails to phishing@irs.gov.

### FRAUD PROTECTION

It is important NOT to send anything (K-1s, 1099s) by email that has your social security number on it unless you black it out or password protect the file.

The official IRS website is [www.irs.gov](http://www.irs.gov)

## Social Security Taxes Remain Same in 2016

2016 FICA Tax		
Component	Employee's FICA Tax	Employer's FICA Tax
Social Security (OASDI)	6.2% on wages up to \$118,500	6.2% on wages up to \$118,500
Medicare (HI)	1.45% on all wages + 0.9% on wages in excess of \$200,000 for a single taxpayer. \$250,000 for a married taxpayer filing jointly, \$125,000 for a married taxpayer filing separately*	1.45%

\*The employer is obligated to withhold the additional 0.9% tax only if the employer pays wages to the employee in excess of \$200,000

For household employers, the threshold for Social Security coverage for domestic employees will be wages of \$2,000 in 2016.

2016 Self-Employment Tax Rates	
Component	
Social Security (OASDI)	12.4% on net earnings from self-employment up to \$118,500
Medicare (HI)	2.9% on all net earnings + 0.9% on net earnings from self-employment in excess of \$200,000 for a single taxpayer, \$250,000 for a married taxpayer filing jointly, \$125,000 for a married taxpayer filing separately

## Document Locator Checklist and Worksheets

We have prepared an extensive checklist of important documents and contact information along with worksheets that can be completed to provide the location of personal and financial documents, information on financial accounts, contact information for family, advisors and doctors, and a password master list.

- Print a copy from our website: [www.kranzandco.com](http://www.kranzandco.com), OR
- Call us and request a copy to be mailed to you

Once completed, these forms should be copied and given to appropriate family members and/or friends and/or professional advisors.

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