2017

Electrical Workers Local 103 Trust Funds

Pre-Retirement Tax Seminar

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M&A

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CERTIFIED PUBLIC ACCOUNTANTS

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What We Will Review Today

- **General Overview**
  - Avoid these Common Tax Mistakes
  - Taxable income – What is it?
  - Tax Scams
- **Important Tax Considerations**
  - Facts you should know about Capital Gains and Losses
  - Top Eight Tax Tips about Deducting Charitable Contributions
- **Retirement Income (Sources)**
  - Social Security Benefits
  - Rollovers
  - RMDs
  - Key points to know about Early Retirement Distributions
- **MA State Taxes**
  - MA Tax rates
  - IRA's (fully taxable?)
  - Circuit breaker Tax credit
- **Retirement Planning**
  - Gifting
  - Basic steps in estate planning
  - Leaving personal property
  - Basis of inherited property
- **Questions from you not covered here**

Avoid These Common Tax Mistakes!

- Wrong or missing Social Security Numbers
- Wrong Names
- Filing Status
- Math Mistakes
- Errors in figuring credits or deductions
- Wrong bank account numbers
- Forms not signed
- Electronic filing PIN errors

Taxable Income – What is it?

- All income is taxable unless the law excludes it
- Taxable income does NOT include:
  - Adoption expense reimbursements
  - Child support payments (alimony is taxable and deductible)
  - Gifts, bequests, and inheritances (we get a significant amount of questions about this)
  - Workers' compensation benefits (some exceptions apply)
  - Meals and lodging for the convenience of the employer
  - Compulsory damages awarded for physical injury or sickness
  - Welfare benefits
  - Cash rebates from a dealer or manufacturer

Tax Scams

- Many different tax scams out there.
- Many tax scams involve the phone calls, they threaten police arrest, deportation, license revocation and other threats to create a sense of urgency
- Scammers can now “spoof” numbers to make it look like they are calling from a different or legitimate number.
- Never give confidential information over the phone unless you initiate the phone call to a known business number. The internet is your friend. Call official business numbers. You can always ask for a request in writing.
- The IRS process is lengthy and requires many notices. They never require immediate (same day)responses. All correspondence from the IRS/State should be in writing.
- **THE IRS NEVER CONTACTS BY PHONE OR EMAIL.** They always initially contact you through a letter or notice.
  - Four levels of IRS contact
  - IRP PROGRAM (100% 1099 computer match)
  - Correspondence
  - Office audit
  - Field examination

Important Tax Considerations

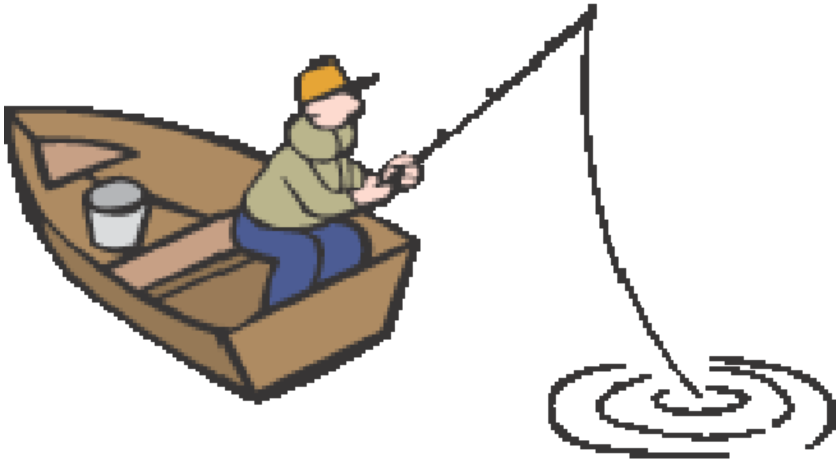
Additional Medicare Tax – What you need to know!

Some Taxpayers will be liable for an Additional Medicare tax if earned income exceeds certain limits.

- Tax rate is 0.9%
- Tax applies to earned income over the threshold amount – includes Medicare wages, self-employment income, and RRTA compensation. You do **NOT** consider any loss for self employment purposes of this tax.
- Thresholds:

Filing Status	Threshold Amount
Married Filing Jointly	$250,000
Married Filing Separately	$125,000
Single or Head of Household	$200,000
Qualifying Widow(er) w/ dependent child	$200,000

Retirement Income



Social Security Benefits

- You may need to pay tax on your Social Security Benefits. To figure it out add one-half of your social security to all your other income (including tax-exempt interest) then compare the total to the table below. If the income is higher than the base some of your benefits may be taxable.

Status	Base amount
Single, Head of Household, Qualifying Widow(er), or Married filing separately and lived apart the full year	$25,000
Married filing jointly	$32,000
Married filing separately and lived with spouse at any time during the year	$0

Social Security Benefits

At what age will you be able to take normal retirement benefits (Normal Retirement Age or NRA)?

Year of Birth	NRA
1937 and earlier	65
1938	65 + 2 months
1939	65 + 4 months
1940	65 + 6 months
1941	65 + 8 months
1942	65 + 9 months
1943-1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960 and later	67 years

IRA RMDs

- RMDs or Requirement Minimum Distributions are required from all IRAs (except Roth IRAs), 401k, 403b accounts
- Distributions are required to start April 1 of the year following the year you reach 70 ½
- The RMD amount is based off of your age and account balance and changes each year (see example worksheet at end of presentation)
- If you fail to take an RMD (or not large enough) you may have to pay a 50% tax on the amount not taken
- Taking RMDs affects income and needs to be considered for tax planning purposes

Key points to know about Early Retirement

- A warning about taking an early withdrawal from an IRA or retirement plan. Doing so in many cases triggers an added tax **ON TOP** of the income tax you may have to pay. Here are some key points you should know about taking an early distribution.

Generally:

- If you select early retirement from a pension plan (not IRA/401k type plan) you typically get a lower benefit amount. Review your options and the impact on future benefits.
- Early withdrawal means taking the money out of your retirement plan before you reach 59 ½
- If you take an early withdrawal you will have to pay an added 10% tax on the amount withdrawn
- The 10% penalty does not apply to nontaxable withdrawals. These include withdrawals of your cost to participate in the plan. Your cost includes contributions that you paid tax on before you put them into the plan. (ROTH)
- A rollover is a type of nontaxable contribution. A rollover occurs when you take cash or other assets from one plan and contribute the amount to another plan. You normally have 60 days to complete a rollover. The IRS now has a one rollover per year rule. Talk to you accountant before you rollover!
- There are many exceptions to the 10% additional tax. Rules vary. Talk to your accountant BEFORE you withdraw. They may be able to save you taxes.
- One of the more important exceptions is withdrawal from a qualified plan after separation of service at age 55.

MA Taxation

- Ordinary income 5.1%
- Capital gains (short and long) 5.1%
- Dividends and non-MA interest 12%

- Social Security benefits are NOT taxable
- MA State and municipal pensions are NOT taxable
- Federal pensions are also NOT taxable
- Some other states' pensions have reduced taxes

IRA's

Fully taxable (or are they??)

- Remember to track the basis (the amount of your contributions) in your deductible IRA's. MA does not allow you to take the deduction on your state tax return when you contribute to these plans. However that means when you take a distribution you do not have to pay taxes on the portion that was originally contributed.

- Many people forget this!!!

Circuit Breaker Tax Credit (MA)

- Massachusetts tax credit for taxpayers over 65.
- The credit can up for as much as $1,070
- Taxpayer must rent or own (and occupy) residential property in Massachusetts
- The property must be their principal residence.
- The credit is equal to the amount of property tax payments during the year (or 25% of rent), plus water and sewer chargers that exceed 10% of their total income.
- There are income and valuation thresholds

Create a Budget 

Transitioning to retirement is a large adjustment. Incomes change drastically and they are considerably more fixed, leisure time increases, some expenses decrease while others increase. Retiring individuals can easily be caught off guard and be caught in cash flow issues as well as tax issues at the end of the year. A simple budget is an incredible tool for planning.

- Budget all expected incoming retirement income (monthly pension, IRA, annuity, Social Security)
- Budget all fixed expenses (mortgages, loans, fixed payments)
- Budget average monthly living expenses (food, utilities, transportation, entertainment) and multiply to cover the entire year
- Figure out any special trips or purchases you are likely to make
- Budget special events that have large costs (Holidays, children weddings, etc)
- Budget a buffer for unexpected events

Never forget taxes, you will need to pay taxes on your income so make sure your withholdings and/or estimates are enough. Your tax preparer or accountant can easily help you.

BASIC Planning Tools

- Insure that your will is updated
- Consider Revocable Trusts (avoids probate)
- Durable power of attorney (powerful document, lets others execute financial decisions if you become incapacitated)
- Healthcare proxy (lets others act on decisions about medical care/ lets wishes known about life preservation i.e. DNR)
- HIPPA Release
- Domicile planning (see my checklist of items at end of presentation)
- Change of address form (Form 8822 at end of presentation) Your mail should follow you

Basic steps to help your estate plan

- Make a complete and accurate inventory of all assets and their values
- Determine the form of ownership of each asset; understand its effect on the transfer of property at death
- Verify beneficiary designations on life insurance policies and retirement accounts
- Estimate the size of the estate to determine whether estate planning is needed (your accountant can help)
- Decide whether certain family members or assets need special protection (minor children, those with special needs, family business)
- Select beneficiaries and determine what provisions should be made for each
- Determine how financial and health care decisions will be made in the case of illness or disability
- Determine how health care will be funded
- Estimate the cost of alternative estate planning methods that will meet the goals
- Select and implement the estate plan
- Laws and family circumstances change. Review the plan regularly.

Basis of Inherited Property

- Generally the basis of property acquired from a descendent is the value placed on the property for federal tax purposes. (FMV at date of death is most common)
- The beneficiary receives this “Stepped up (or down) basis”. This can be a great deal for the beneficiary receiving appreciated assets.
- Stepped up/down basis does not apply to:
  - Income in respect of a decedent, income that the decedent was entitled to receive but did not actually receive prior to death
  - Annuities, including lump sum payments under contract(to the extent that they exceed the investment in the contract)
  - Life insurance proceeds paid by reason of death
  - Appreciated property given to the decedent within one year of death that passes from the decedent back to the original donor or donor’s spouse

Questions??

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