

The Rudolph Report

www.rudolphcpa.com Opening Day 2016

To all our clients:

After an exhausting and successful tax season, we want to extend our gratitude to you. We appreciate serving as your CPA firm, and, like a gaggle of Cub fans, we look forward to next year.

Our front desk staff thinks you're terrific. They work tirelessly and often remark how much they enjoy the folks who come in for taxes and candy (though not in that order). Sometimes managing the front desk is like being on the receiving end of an avalanche when the only tool at your disposal is a Mr. Potato Head. They do marvelous work.

In this newsletter, we'll inform you of updates on identity theft issues while discussing retirement plans, HSA distributions, and complexities such as tax planning or hitting behind the runner. We are here throughout the year to assist you with tax planning or occasional questions. Please do not wait until next tax season to ask about any financial issue that affects you (restructuring tax withholding, insolvency, or disposing properties or extra Cubs tickets). While we cannot always prevent the tax, we can prevent the surprise.

The sky is gloomy but the Chicago National League ballclub is in first place without Starlin Castro at short. Expectations on the north side have never been this high.

This is the year.

Chris Rudolph CPA

IDENTITY THEFT AND YOUR TAXES

A **commendation for the IRS**. Yes, you read the heading correctly. The IRS has done an outstanding job in reducing tax return identity theft. We saw a 90% reduction in identity thefts this tax season. In speaking with competing firms, I learned that their rate of theft also decreased dramatically.

A heads up that we have seen some tactics by criminals that you may encounter. Phone calls and emails from those purporting to be from the IRS are not legitimate. The IRS never emails and they never initiate with a phone call. Do not reply or engage. Please make your elders aware of the scams as they are often targets unfortunately.

If you do find that you are a victim of identity theft, here are some tips:

- Notify your banks, credit cards, and investment firms
- Ask us for help in notifying the IRS
- Pull a free credit report to see if credit cards have been opened in your name
- Use a plethora of bowling words until the dog hides under the table
- Consider Lifelock or another credit monitoring service

Finally, we are acutely aware of the significance of your private information, and we have elevated measures to ensure its protection. We continue to work with an offsite data center (think Fort Knox guarded by alligators with coodies). Perpetrators will find that trying to hack us will be as disappointing as brunch at my mother-in-law's featuring Gummy Worm Jello.

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IRA'S AND RETIREMENT PLANS

IRA distributions can be made directly to **charitable organizations** in 2016. This law has been made permanent (until later changed). The distribution is not recognized as income and the contribution is not noted as a deduction. For some folks, it does not provide any benefit; however, for others this technique can yield tax savings. If you do not itemize, then the charitable contribution would not have helped you anyway. Therefore, you are better off bypassing the deduction and not recognizing the income. Not recognizing has four potential benefits: First, it reduces your taxable income. Second, it may reduce the taxable portion of social security benefits that you would normally recognize. Third, it may help your skin glow. Fourth, it will reduce your overall gross income which could potentially qualify you for the senior freeze of property assessments or reduce the Medicare premiums which you pay. Medicare premiums and the senior freeze are based on your adjusted gross income.

Self employed people can **maximize retirement savings** through combining their SEP IRA and solo 401k contributions. You can place \$18,000 into an individual 401(k) (\$24,000 if you are over 50). Additionally, you can fund a percentage of your profits (up to 25% often) into a SEP IRA. The aggregate contributions can be north of \$50,000. Solo 401(k) plans must be established by December 31st. Situations are unique, so contact us to find the right plan for you. We do not sell financial products, so our advice is unbiased and unshabby.

HSA'S, MARRIAGE, AND COOKIES

More people are participating in **health savings accounts**. These are often marketed to you by employers as "giving you control over your medical decisions." That's just a better tag line than "We're cutting our costs by making them yours." Qualified distributions from an HSA are non taxable. They include payments for orthodontics, vision, dental etc. These do not include cosmetic surgeries unless they are necessary (ex: Don Zimmer guilty of crowding the plate). Your HSA may reimburse you if you paid an expense out of your own pocket.

New **marriage and divorces** often entail tax complexities that necessitate planning. For example, the tax law stipulates that your filing status must reflect your marital status as of December 31st. People who divorce mid-year must file a non-married return, and they often find themselves short on withholding. (I can attest that it's no fun being short). There are two ways to resolve issues like these: either call our office to discuss the tax implications of marital changes or just don't get married.

If you do get married (because she is *the one* or her father has season tickets in the box seats), then please keep your withholdings at the single rate until we get a chance to talk. The married withholding rates elected on the W4 are deceptive and often do not yield enough tax withholdings. That first married joint tax return can be as disappointing as biting into a cookie that you thought was chocolate chip only to find it laced with raisins and Grapenuts.

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