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From the Desk of . . . .

## Chuck Testino

Welcome to the New Year. I hope that 2016 will be filled with much success and happiness for you and for your family. Our newsletter this quarter offers an informational look into governmental changes that could affect you. On page two, I highlight the up-coming change in a social security strategy known as "file and suspend". While this strategy will no longer be available there is much to consider prior to filing for benefits. Also, as tax season is upon us, below are a few red flags to avoid during filing season and to the side is new IRS policy as it relates to identity theft during tax season. As always I invite you to call anytime you have a question or need assistance with your investments.



### Identity Theft and Tax Season

Under a new policy announced by the IRS, taxpayers may receive a letter when the IRS spots suspicious tax returns that have indications of identity theft but contain legitimate taxpayer's name and/or social security numbers. The IRS has agreed to reverse its previous policy and instead provide identity theft victims with copies of the fraudulent tax return so they can take the proper steps to secure their personal information.

\*<https://www.irs.gov/uac/Taxpayer-Guide-to-Identity-Theft>  
 \*<http://www.financial-planning.com/webonly/top-tax-issues-for-2016-2694258-1.html>



### Avoiding a IRS Audit

Certain red flags are sure to draw scrutiny by the IRS. All tax returns are compared with statistical norms and those with abnormalities undergo review. Below are some red flags that are easy to avoid.

#### Not reporting all of your income

Unreported income is the easiest red flag to avoid. Form 1099s from distributions, old brokerage accounts and college 529 plan distributions are the most overlooked income.

#### Foreign accounts

Overseas banks are required to identify American asset holders. Individuals are now required to report foreign assets worth at least \$50,000 on new Form 8938.

#### Blurring the lines on business expenses

The IRS occupational codes measure typical amount of travel and expenses by profession. Tax returns showing 20% or more above typical averages get a second look.

Tax laws are constantly changing. Seeking help from a professional may ensure that you don't inadvertently throw up a red flag.

[Http://turbotax.intuit.com/tax-tools/tax-tips/IRS-Tax-Return/Top-Red-Flags-That-Trigger-an-IRS-Audit/INF22648.html](http://turbotax.intuit.com/tax-tools/tax-tips/IRS-Tax-Return/Top-Red-Flags-That-Trigger-an-IRS-Audit/INF22648.html)

### New Tax Deadlines!

The way the days fall in April 2016 means that the usual mid-month tax-filing deadline is a bit later. In 2016, the Washington, D.C., holiday Emancipation Day is celebrated on April 15. Federal law mandates that any holiday in the nation's capital also applies to offices there, and that pushes the usual due date for annual 1040 filings to Monday, April 18. Taxpayers in Maine and Massachusetts will get one more day - until April 19 -- to file their federal returns because offices there will be closed on the 18th for Patriots' Day.



### 2016 Contribution Limits

Plan	2016 Limit	Over Age 50	"Catch-Up"	Total
IRA/Roth	5,500	+ 1,000	+ N/A	= 6,500
403b	18,000	+ 6,000	+ 3,000	= 27,000
457/401(k)	18,000	+ 6,000	+ N/A	= 24,000

\*Note - If you will be 50 or older by the end of 2016, you have the benefit of being able to make "catch up" contributions.  
 \*SEP IRAs do not allow for catch up contributions.

### Chuck Testino

Phone: (520) 323-3036  
 (800) 323-3036  
 Fax: (520) 323-3329

E-mail: [AIAREDSKINS@AOL.COM](mailto:AIAREDSKINS@AOL.COM)

Website: [www.AIATucson.com](http://www.AIATucson.com)





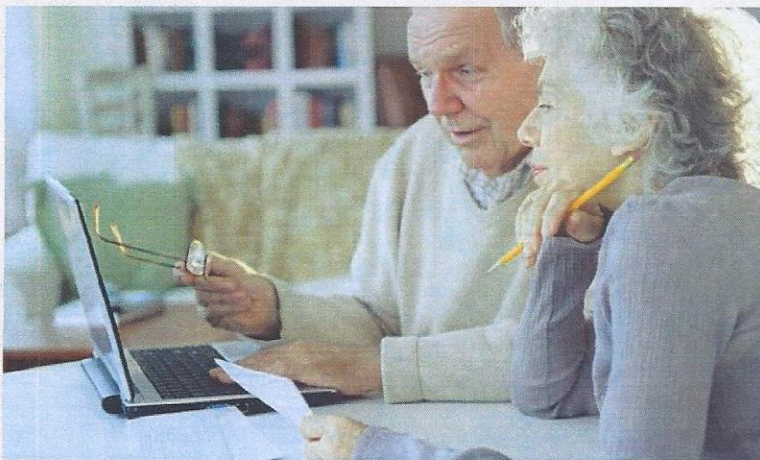
## Disappearing Social Security Claiming Strategy

Over the past few years we have highlighted a strategy in which couples could maximize their claim of social security benefits. This strategy was called “file and suspend”. In early November Congress came together to pass a two-year budget deal that came with an interesting provision for future retirees. The “file and suspend” strategy that allowed the spouse of a high-earning individual to collect spousal benefits even when the high-earner was not collecting them will be eliminated. File and Suspend was a little-known strategy until a few years ago, but it has quickly gained popularity. The White House targeted it for elimination last year to beef up Social Security's disability insurance trust fund that was scheduled to run out of money and produce an immediate 19 percent cut in disability benefits next year.

The “file and suspend” strategy will disappear approximately six months from the date that the Bipartisan Budget Act of 2015 was signed into law in the first week of November 2015. After that point in time, couples will no longer be able to initiate use of this strategy.

Generally, in order to be entitled to a benefit based upon the earning record of your spouse, your spouse must be receiving Social Security benefits. The “file and suspend” strategy provided a way around that by permitting an individual to file for benefits on his or her own work record, but suspending receipt of such benefits until a later date. Generally, the higher-earning spouse would employ the file and suspend strategy to maximize the total benefit received as a married couple. Here's a hypothetical example of how it has worked.

Let's say Jack qualifies for a Social Security benefit of \$2,000 per month in 2015. He is 66 years old and is at his full retirement age. His wife, Jill, age 63, will be entitled to a benefit of \$900 per month off of her working history when she turns 66.



Jack does not want to start receiving Social security yet because he is working part time but some additional income would be nice. So, Jack filed for his benefit and immediately tells Social Security to suspend them. For every month he delays receipt of his benefit, his benefit amount increases, which results in an increase of about 8% every 12 months.

If Jack does not file for Social Security, Jill is only entitled to a benefit based upon her own record. If Jill begins taking her social security at age 63 off of her own record, her benefit of \$900 per month is reduced to \$730 per month because she started taking the benefit prior to her full retirement age of 66.

Because Jack has filed for the benefit, even though he is not receiving them, Jill is now entitled to a spousal benefit of \$764 per month, which is \$34 per month higher than the reduced \$730 when taking benefits prior to her full retirement age off of her own working record.

More importantly, because Jack is not receiving his monthly benefit, he is accruing Delayed Retirement Credits. In four years, he tells Social Security that he wants his benefit to start at age 70. Instead of \$2,000 per month, he will receive \$2,640 per month.

Couples who have already implemented the file and suspend strategy will be able to continue receiving the benefits. The changes will not be retroactive.

There are still many things to consider before taking Social Security benefits. A number of options are still available and decisions as to when and how to take them still carry tremendous weight and can have a real impact on your retirement income. Talk to an advisor about your situation and how best to incorporate Social Security into your retirement income plan.

This material is being provided for general educational purposes only and should not be used as the final determinant of the best strategy on how and when to claim Social Security benefits. Social Security benefit claiming decisions can be complex and depend on various personal factors, legal and financial considerations, and tax laws, all of which can change frequently. Individuals are strongly advised to consult with appropriate financial, legal and tax advisors about their specific circumstances and individual goals.

\*<http://us.beyondfullsandbears.com/2015/11/03/disappearing-options-to-claim-social-security-for-some/>  
\*<http://www.fa-mag.com/news/budge-deal-could-cost-clients50-000-in-social-security-benefits-23671.html?print>