The Mosaic Financial Group LLC
Your Wealth Management Partner

Don't Be Victimized By These 10 Common Scams

Scams of all varieties continue to bilk unsuspecting victims out of billions of dollars each year. In particular, older Americans are being targeted, especially those who have been recently widowed. With that in mind, here are 10 scams to watch out for:

1. IRS imposters. This scam proliferates during tax-return season. A caller will say he or she is an IRS agent and claim you owe back taxes. Then the caller threatens you with stiff penalties or a lawsuit—and even arrest—if you don't wire the money immediately. But the IRS doesn't call debtors without sending a notice via U.S. mail first. To be on the safe side, if you get such a call, check with the IRS at 1-800-829-1040 to check the caller's credentials.

2. Tech support. Typically, you receive a phone call purporting to be from Microsoft or another software company, and the caller says a virus has invaded your computer. Then you're asked to provide access to your computer and the hacker installs malware that steals personal information. These software companies don't make unsolicited phone calls, so hang up immediately.

3. Robo-calls. Are you a victim of those annoying automatic telephone calls? Although the call itself isn't an attempt at ID theft, it helps the crooks build a "go-to list" for future phone scams. Use your caller ID to screen calls and don't answer if someone is calling from a number you don't know.

4. Charitable solicitations. Many legitimate charities call on the phone so it's hard to weed out the real ones from the fakes. Investigate any charity before handing over cash or making a credit or debit card contribution by mail or online. If the charity is for real, the caller won't hesitate to provide additional information. Check out charities at www.charitynavigator.org.

5. Credit cards. It's not surprising that scam artists are working an angle as credit card companies change their cards from magnetic strips to chips. Someone impersonating a credit card company employee may request information or ask you to click on a link to update your status. But credit card companies don't operate this way. If you have any doubts, call the company directly.

6. Dating websites. Initially, scams were based on prying money or sensitive data out of single people who recently have entered the dating scene. But now it has mushroomed into more sophisticated cons aimed at newcomers to religion-based sites. Because you're "dating" someone from your faith, you may be more likely to let your guard down and give access to money.

7. Widows and widowers. A typical trick of con artists is to prey on your emotions. Of course, elderly individuals are especially vulnerable

(Continued on page 4)

Spotlight On... Patricia Pineda

Hello, my name is Patricia Pineda and I am a member of The Mosaic Financial Group's tax advisory team. I started at Mosaic as an intern and have now been a permanent member of the team for over a year. We're a close knit team, and I truly enjoy working with everyone.

I was born and raised in the city of Chicago. I graduated from Loyola University Chicago with a Bachelor's in Accounting. While at Loyola, I had the opportunity to study abroad in Rome. Studying in Rome sparked my interest in traveling, and I have been venturing around the world ever since. Although I have been all over Europe, I have to say, Spain is one of my favorite places to visit.

I am currently enrolled in the Masters of Accountancy at DePaul University and I am ultimately working towards completing the CPA. In my spare time I enjoy being active and checking out Chicago's best restaurants. When I am not traveling or in school I am training for the half marathon. I have a race coming up in the fall and I am counting down the days!

Fun fact – I am a bit of an adrenaline junkie and have sky dived not once but twice. Next on my list is bungee jumping from the Royal Gorge Bridge in Colorado.

Do Roth IRA Math Before Converting

The Roth IRA conversion has been one of the most popular retirement planning techniques in recent years and there's nothing to indicate that this trend will change. The main attraction is that the money you take from a Roth after the conversion is generally free from income tax and you don't have to dilute your nest egg with required minimum distributions (RMDs) as you do with traditional IRAs. For many retirement-savers, it's a good deal.

But the benefits of Roth IRAs come at a price: When you convert funds in a traditional IRA to a Roth, you must pay tax on the conversion amount, just like you would with a regular distribution from an IRA. The trick is to minimize the tax liability when you pull off this maneuver.

Normally, withdrawals from a traditional IRA are fully taxable at ordinary income tax rates, currently reaching as high as 39.6%. In addition, these distributions increase your exposure to the 3.8% surtax on net investment income, as well as other potential adverse tax consequences such as the personal exemption phaseout (PEP). Furthermore, you must begin taking RMDs from your traditional IRA accounts after you reach age 70½—no exceptions.

Once you convert to a Roth, "qualified" distributions after five years are completely exempt from income tax. Qualified distributions, for this purpose, include withdrawals you take after age 59½, that are made because of death or disability, or are used for a first-time home purchase (up to a lifetime limit of $10,000). And you don't have to take RMDs during your lifetime no matter how long you live.

You may be able to contribute directly to a Roth IRA, but that option is phased out for upper-income taxpayers. A conversion may be your only viable route.

If you're thinking about a Roth conversion this year, you might consider limiting the amount you convert to the maximum you can add to your income without moving into a higher tax bracket. For example, if you expect to be in the 25% bracket and have another $50,000 to spare before crossing into the 28% bracket, you could take this opportunity to convert $50,000 from your traditional IRA to a Roth. Not only is that amount below the thresholds for the 3.8% surtax and PEP, the tax rate is limited to 25%. You then could repeat this strategy over multiple years to keep your tax liability at a reasonable level.

Finally, you're holding another tax card up your sleeve: If it suits your needs, you might decide to "recharacterize" part of the converted amount back into a traditional IRA. This could be a good idea if the value of the account declines significantly after the conversion. You have until the tax return due date for the year of the conversion plus extensions to recharacterize, giving you plenty of time to make an informed decision. ●

Are You Afraid Of The Estate Tax?

Who has to worry about federal estate taxes? They're an afterthought if you believe they affect only families such as the Rockefellers and DuPonts. But the truth is that the reach of this tax may extend further than you think, according to the latest IRS statistics.

Estate Tax Returns Filed in 2014, published in an IRS Statistics of Income report, shows that 11,931 estate tax returns were filed in 2014 on estates with a total value of $169.5 billion. Those figures represent a significant increase from the 2013 IRS statistics when 10,568 returns were filed on estates valued at a total of $138.7 billion, continuing a recent upward trend.

In other figures of note, the breakdown for 2014 estate tax return filings based on gross estate valuation were as follows:

- For returns under $5 million, 1,631 returns were filed on estates totaling $5.4 billion in value.
- For returns of $5 million to $10 million, 6,735 returns were filed on estates with a total value of $46.2 billion.
- For returns of $10 million to $20 million, 2,283 returns were filed on estates with a total value of $30.9 billion.
- For returns of $20 million to $50 million, 938 returns were filed on estates worth a total of $27.9 billion.
- For returns of $50 million or more, 345 returns were filed for estates worth $59.1 billion in total.

The figures are interesting on a couple of levels. First, they indicate that more families are being hit by the federal estate tax. Second, they would be even higher if taxpayers didn't avoid federal estate tax complications through some smart legal maneuvering.

Consider these basic tax breaks that are at your disposal: Under the unlimited marital deduction, any amount transferred from one spouse to

Avoid The Tax Traps For Intra-Family Loans

Suppose your adult child comes to you with an intriguing idea for a new business—and needs some seed money to get the venture off the ground. Or maybe one of your children could use some help in buying a home or financing a college or graduate degree.

You've probably taught your children the value of standing on their own two feet, and you may not be inclined just to hand them the cash they need—although you could make substantial gifts without paying federal tax on the transfer. The annual gift tax exclusion of $14,000 per recipient is doubled to $28,000 on joint gifts by a married couple, and you could provide literally millions tax-free if you used part of your lifetime exemption.

An attractive alternative might be to lend your kids the money. Of course, they could try to borrow from a bank, but credit is tight these days, and you may not want them to be at the mercy of outside lenders. A direct loan from you would keep everything in the family, and it could potentially provide more flexibility for the borrowers. However, simply calling a transaction a loan isn't enough. You'll need to follow IRS guidelines for intra-family loans to avoid adverse tax consequences.

Let's start with this basic premise. Usually, you can set up an intra-family loan for $10,000 or less without any strings attached—and no questions asked by the IRS. You don't even have to charge any interest. However, if the borrowed amount exceeds $10,000 and you don't charge the prevailing rate of interest, the IRS will impute interest for you. Essentially, it treats the transaction as if you had:

- Charged interest to the child;
- Made the child a cash gift of the interest element; and
- Actually received interest in return.

You'll end up owing tax on that "phantom income" without actually getting any cash back. Obviously, that's a situation you should try to avoid, particularly given that you can make a gift of substantial amounts without being taxed.

There is one exception here that could ease the tax liability on interest income. If the loan is for $100,000 or less, the amount of interest you're considered to have received annually for tax purposes is limited to your child's net investment income for the year. And if that income doesn't exceed $1,000, you won't have to realize taxable interest income on the family loan. But this special exception doesn't apply if you charge a below-market interest rate. Whether or not a rate is considered legitimate, in turn, depends on the type of loan, its length, and interest rates in your area.

What happens if the loan isn't repaid? Assuming you truly expect to get the money back—in other words, the loan isn't designed to be a gift to your child—it's best to have a formal loan document drafted by a finance professional. The agreement should include the usual terms that would be found in a bank loan—for instance, it should state the amount of the loan; the term for repayment; the interest rate; and the collateral securing the loan. Finally, you should have the loan document witnessed and notarized. That's the best proof you can have if the IRS ever challenges the transaction. But you'll also need to keep records showing repayments to demonstrate that the arrangement is a bona fide loan.

Suppose that you follow through with all the formalities of a loan, but at the end of the day your child can't pay you back? Are you completely out of luck? In such a case, you may be able to turn the tax rules to your advantage, depending on the type of loan. If it's a personal loan, you can treat it as a short-term capital loss when it becomes totally worthless—that is, the point at which you conclude there's no reasonable prospect of repayment. If the loan came from your business, you may deduct the amount you lost as an ordinary loss, which you can use to offset ordinary income, such as your highly taxed salary. But in either case, the IRS may decide to put the entire transaction under the microscope. So again, you'll need to be able to produce records that are airtight.

Keep in mind that the IRS is especially tough on business loans. For instance, if you don't have "clear and convincing" evidence that you've treated the loan as a business transaction, it may be deemed a gift. So don't leave the tax consequences to chance. If you want to help your children and you don't qualify for the special exception for loans above $10,000, make sure you observe all the technicalities. ●

another, whether by gift or bequest, is completely exempt from tax. In addition, amounts you leave to other beneficiaries such as your children and grandchildren are covered by the unified estate and gift tax exemption of $5.45 million in 2016. Also, the annual gift tax exclusion allows you to give each family member and others up to $14,000 free of gift tax in 2016. Gifts above this limit may be sheltered by the unified estate and gift tax exemption, although this will erode the amount available to reduce estate taxes.

Furthermore, the "portability" provision in the tax code provides extra flexibility for married couples. If a proper election is made, the estate of a surviving spouse can benefit from any unused portion of the estate tax exemption of the first spouse to die.

By utilizing and combining these tax breaks through various estate-planning devices, including sophisticated trusts, you may avoid the high tax bills awaiting unsuspecting families. Finally, don't overlook the potential impact of state inheritance taxes. Contact our office for more details. ●

7 Tax Breaks Set To Last Forever

After years of passing "tax extender" laws, Congress finally enacted tax legislation in 2015—the Protecting Americans from Tax Hikes (PATH) Act—that permanently restores several key tax breaks for individuals. These seven tax provisions are now a permanent part of the tax code until, if ever, Congress changes them. They are:

1. American Opportunity Tax Credit. Before PATH, parents could claim a maximum $2,500 American Opportunity Tax Credit (AOTC) for qualifying higher education expenses, subject to phase-outs based on modified adjusted gross income (MAGI). But the maximum credit was scheduled to drop to $1,800 in 2017 with lower phase-out levels. The new law preserves the higher AOTC.

2. Sales tax deduction. Before 2015, taxpayers could choose to deduct state and local sales taxes instead of claiming the usual deduction for state and local income taxes. This optional deduction, especially valuable if your state has no income tax, has been restored retroactively for 2015 and made permanent.

3. IRA transfers to charity. Under a provision that had expired, if you were over age 70½ you could transfer up to $100,000 ($200,000 as a married couple) directly from an IRA to charity—including amounts paid as required minimum distribution (RMDs)—with no tax consequences. The PATH Act restores this rule for 2015 and makes it permanent.

4. Conservation deductions. If you grant a conservation easement for property you own, you get a deduction based on the easement's value. Previously, that deduction could be for as much as 50% of AGI (100% for farmers and ranchers), rather than the usual 30% limit, and there was a 15-year carry forward period for excess amounts instead of five years. Both enhancements are restored permanently, retroactive to 2015.

5. Qualified small business stock. Under a former law, investors could exclude 100% of the gain from the sale of qualified small business stock (QSBS) that they acquired before 2015. That amount was scheduled to drop to 50% for QSBS purchased after 2014. Now the 100% exclusion is permanent.

6. Child tax credit. Parents had been entitled to a child tax credit of up to $1,000, subject to a phase-out, with an additional refundable credit of 15% of earned income that exceeded $3,000. But that threshold was set to increase to $10,000 in 2017. The PATH Act restores the lower threshold and makes it permanent.

7. Educator expenses. Finally, teachers and other educators had been able to deduct up to $250 of their out-of-pocket classroom expenses. The new law restores this deduction, retroactive to 2015, and makes it permanent. Future maximums will increase with inflation.

The PATH Act also extends other individual tax breaks, as well as business provisions, and makes some of them permanent. ●

---

10 Common Scams

(Continued from page 1)

after the death of a loved one. It's not unusual for a criminal to pretend to be a banker or other professional to coerce you to hand over funds. Rely on reputable financial planners you know and trust and close family members to steer you in the right direction.

8. Medical ID theft. ID theft often is associated with financial information, but loss of medical information can be just as damaging. Just imagine someone running up costs for expensive drugs, doctor visits, and even surgery under your name. What's more, unlike theft of credit card data, you're often held liable for these purchases. Don't volunteer your particulars (for example, Social Security and insurance account numbers) unless you're certain it's for a valid reason. Check with your insurer about any charges you don't understand.

9. Gift card vouchers. If you're targeted for this scam, you receive an unsolicited email offering you a free gift card from a well-known retailer or restaurant if you click on a link. It can look legitimate—the scammers will go to great lengths to replicate logos and corporate designs—but often it isn't. Clicking on the link will install malware on your computer that can siphon away personal data. No matter how appealing an offer is, don't click on links you have not verified.

10. Counterfeit apps. Finally, in a highly publicized incident, Apple developed some applications that were found to contain vicious malware that spied on consumers. While Apple believes it has purged these malicious apps, similar occurrences could lead to loss of personal data. Try to use only well-known apps and consider reading reviews before purchasing them.

These are just 10 of the scams currently making the rounds. Be on your guard and be skeptical of anything that doesn't seem just right. ●

Articles are written by a journalist hired by The Mosaic Financial Group LLC and are general information not intended as advice to individuals or corporations.

©2016 API