Fullerton Tax & Planning

www.fullertontax.com

30S East Avenue, Riverside, IL 60546

Ph: 708-447-5667 / Fax: 708-447-5733

E-Mail: Tfullerton@fullertontax.com

"Real People provide Real Service"

January, 2017

Okay, it's here……

Winter and the Polar Vortex. They are selling winter coats in Georgia and Florida. Climate Change? Nah!
News from Washington says that all U S diplomats are to leave their posts on January 20th. Around the world.
A little chaotic? Nah.

So take a deep breath and take it one day at a time. By this time next year, 11 million+ people will be out of health Insurance, we the taxpayers will still be paying for a Southern Border restriction of some sort, and the Russian President will be vacationing in a Trump resort.

What will that mean to us?

Well, let's start with that "entitlement" that Congress wants to get their hands on. The one that workers pay into and retired and disabled take monies out of. Social Security.

Most people in this country think that Social Security is in a great deal of trouble, even on the brink of bankruptcy.

They worry about its ability to make benefit payments for their entire retirement. Younger people, who are decades away from retirement, worry whether Social Security will even exist when it is time for them to retire.
Reading the latest Social Security Trustees Report should put most of those worries to rest.

One of the main focuses of the report, published annually, is on the ability of Social Security to meet all its financial obligations over the next 75 years.

Social Security is going to be around in one form or another for a long time, probably well into the next century.

Indeed, the solution to fixing its long-term funding issue is simple. But just because it is simple doesn't mean that it is easy.

The worst-case scenario would entail a cut in benefits for everybody, but that won't happen for at least another 18 years. If nothing is done to fix the system, then in the year 2034 everybody's benefits would have to be cut by about 25%.

In other words, taxpayers would receive 75% of what they should have been paid. Once these benefit cuts are made, Social Security would be able to make all benefit payments going forward until 2090.

So, over the next 75 years, the worst thing that could happen is a 25% cut in benefits 18 years from now.

There are other options.

The report highlights several options that could fix the funding shortfall with no benefit cuts.

The total deficit or funding shortfall is 2.66 % of taxable payroll. The simplest way to erase that deficit is to increase the payroll tax or FICA tax by a total of 2.66%.

That tax increase could be split evenly between employers (1.33%) and employees (1.33%). The FICA tax for employees stands at 6.2% of earnings.

Employers also pay the same rate of 6.2%. Increasing the FICA tax for both employers and employees by 1.33%, would bring it up to 7.53% and eliminate the need for any benefit cuts through 2090.

RAISING THE CAP

Increasing taxes by this amount doesn't seem like a viable option. The other option that would have the biggest impact on reducing the Social Security funding shortfall involves the earnings cap.

To be sure, the Social Security Administration said in October that this cap will increase next year to $127,200 from $118,500.

If clients earn less than this threshold, wherever it is set, they would pay the 6.2% FICA tax on all their income. If their earnings exceed the threshold, anything above that level wouldn't be subject to the tax.

About 6% of all wage earners in this country have earnings that exceed $118,500.

And increasing the cap to $127,200 will make more taxpayers subject to the tax or about 12 million more people, according to the SSA.

But simply eliminating the earnings cap, so that everybody pays FICA taxes on all their earned wages, would resolve 70% to 90% of the program funding issue with no benefit cuts.

Eliminating the earnings cap doesn't appear to be a viable political option either. But a combination, raising FICA taxes a little bit along with a raise in the earnings cap, could be more palatable politically and could accomplish the goal of eliminating the funding deficit with no benefit cuts for 75 years.

Increasing the FICA tax by, say, four-fifths of a percentage point, for both employers and employees to 7% from 6.2% would resolve about 60% of the long-term funding issue. It is less than a one percentage point increase for individuals and for companies and hopefully more acceptable to politicians and voters.

Just doing this by itself would extend the time before benefits would have to be cut until 2052 instead of 2034 or by an additional 18 years. In addition to the small FICA tax increase, if the earnings cap is increased again to, say, $350,000, that should eliminate the deficit with no benefit cuts for the next 75 years.

This is just one potential solution. With this, everybody plays a part in the solution, but wealthy people play a bigger part.

Everybody is affected because FICA taxes would be increased by 0.8% for everyone. Wealthy people would experience a higher tax increase measured in dollars because much more of their earned income would be subject to FICA taxes when the earnings cap is raised to $350,000.

Compromise has always been a major part of our political system, though recently it has been hard to come by. A good compromise involves both sides making a sacrifice and both sides receiving a benefit.

That is exactly what happens with this proposed fix. The people who aren't considered wealthy make the sacrifice of paying more FICA taxes with the 0.8% tax increase, but they also gain because their retirement benefits won't be cut.

A benefit cut for many of these people could be especially harmful, making it much harder for them to maintain a decent standard of living in retirement. The wealthy also make the sacrifice of paying the higher FICA tax as well as paying that higher tax on more of their earned income.

But they also would benefit because when it comes time for them to claim Social Security, their retirement benefits would be bigger because of the additional FICA taxes they had to pay.

The longer we wait, the more expensive it becomes to fix the system. Politicians need to compromise and fix the system now. Good luck.

Next there is the true entitlement, the forefather of a single payer health insurance system, Medicare."

Let's Give Medicare the Right to Ease Drug Costs
By: Jeannine English
AARP The Magazine

This summer, Medicare celebrates its 50th birthday, a grand achievement for older Americans and their families. This great program brings health security to more than 54 million Americans, mainly those who are 65 or older.

The golden anniversary is a natural time to consider how to keep Medicare strong for the next 50 years, and I want to spotlight a longtime AARP policy recommendation: giving the secretary of Health and Human Services the authority to negotiate prices for prescription drugs covered by Medicare.

Americans pay a lot more for prescription drugs than people do in other advanced countries. Yet, unlike private insurance plans, Medicare is not allowed to negotiate with drug companies to lower prices.

Let me give you an example. In 2013, a highly regarded new drug for hepatitis C named Sovaldi was introduced in this country. U.S. retail price: $1,000 per pill. In most cases, the treatment requires 84 pills, for a total of $84,000.

But if you negotiate, the cost goes down. The U.S. Department of Veterans Affairs, which is not bound by Medicare's rules, was able to negotiate a Sovaldi price of $543 per pill ($45,612 for the regimen, about half the Medicare price). Germany negotiated a price of about $66,000; the United Kingdom negotiated a price of around $57,000.

Pharmaceutical companies say that their prices reflect costly investments in research and development. But why is there so much wiggle room? Why must they spend so much on marketing? How much are they paying their execs?

Prices for medications push up health care costs and consistently exceed inflation. While Americans with prescription drug coverage do not pay the full amount, the high prices are ultimately passed on to taxpayers and health care consumers.

AARP is fighting for common-sense measures to keep Medicare strong for future generations. Negotiating prices for prescription drugs could potentially save billions of dollars.

If you agree, please call your senators and ask them to co-sponsor S.31, the Medicare Prescription Drug Price Negotiation Act of 2015.

Then there are the survivor benefits (Social Security) experts….

Make the Most of a Survivor Benefit
Kiplinger's

Your higher-earning spouse dies, and you're eligible for a Social Security survivor benefit. But should you instead claim a benefit based on your earnings? One study finds that some individuals, even lower-earning spouses, could do better if they claim a survivor benefit first and then switch to their own benefit at age 70.

Let's start with some Social Security basics. Those born between 1943 and 1954 can claim a full benefit at 66. You can collect your own benefit as early as 62, but it will be permanently reduced by a certain percentage for each month you claim early. If you collect at 62, for example, you'll get 75% of your full benefit. For each month you delay beyond 66, your benefit will increase by a small percentage—up to 8% a year—until 70.

A widow or widower is entitled to a survivor benefit that is equal to 100% of the deceased spouse's benefit, as long as the survivor waits until full retirement age to collect. If a survivor claims a survivor benefit earlier, that benefit will be reduced somewhat. You can collect a survivor benefit as early as age 60.

If a spouse dies, the survivor has several options to maximize Social Security benefits. William Reichenstein, a professor of investment at Baylor University, in Waco, Tex., and his co-researchers ran through several calculations that show the various possibilities.

One option is to start collecting a survivor benefit at perhaps 60 or 62. When you reach 66 or later, you can switch to your full benefit based on your earnings. Switching only makes sense if your own benefit when you switch will be worth more than the survivor benefit. Collecting that survivor benefit early may enable you to afford to delay claiming your own benefit.

Take Jack and Beth, who are both 62. Jack's full benefit at 66 is $1,000, while Beth's is $800. Neither is collecting benefits. Jack dies at 62, and Beth decides to claim a benefit. But should Beth claim a benefit based on her own earnings at 62 and later switch to a survivor benefit? Or should she claim a survivor benefit now, and perhaps claim her own benefit later?

Let's say she takes her own benefit now. Because she is claiming at 62, her monthly benefit would be reduced to $600. At 66, she switches to a monthly survivor benefit of $1,000. By age 84, which is her life expectancy, she would have received $181,125 in present value, which is the current worth of the future income stream, according to Reichenstein.

But, says Reichenstein, Beth could boost the lifetime value of her benefits by switching the order. If she claims a survivor benefit at 62, Jack's $1,000 full benefit would be reduced, to $810, because she is claiming early. At 70, she switches to a monthly benefit of $1,056 based on her own record (her $800 benefit plus 32% in delayed credits). The present value: $189,379. "By waiting until 70 before she begins benefits based on her earnings record, her payments will rise above the survivor payments," Reichenstein says.

Let's say Jack doesn't die at 62. Jack and Beth both hold off on claiming benefits. He dies at his full retirement age of 66. She decides to claim benefits.

Beth claims her monthly survivor benefit of $1,000. If she continues collecting that until she dies at age 84, she'll get $173,629, Reichenstein figures. If she collects the $1,000 survivor benefit at 66 and then switches at age 70 to a benefit based on her own record, she'll get $1,056 a month—for a total of $180,822.

What if Beth dies first, at age 66? In one scenario, Jack claims his own benefit of $1,000 until he dies at age 82, collecting $159,649. If instead he collects a survivor benefit, of $800 a month, he could switch to his own benefit at 70. By delaying four years past his full retirement age, his benefit based on his earnings would be worth $1,320—for a total of $187,244.

The lesson: Many individuals who are eligible for benefits based on their earnings and for survivor benefits could end up better off by claiming a survivor benefit first and then switching to their own benefit at 70. Reichenstein says you'll need to "run the calculations both ways" to make a decision.

Enough of bandwagoning….

It is that time of every year. Employers line up their tax forms, so here is your 2016 year end checklist.
Forms for last month or quarter that need to be filed.
Form 941 Fed and State
Unemployment Forms
Self employed and those subject to withholding
1040 Estimates
Forms for the total year that need to be issued.
W2s
1099's including 1099MISC.
Profit and Loss (Income Statements)
Balance Sheets
Accountant reports including trial balances.

Check with your accounting people if you have any doubts on what needs to be done right now.\

If you have a tax return to be prepared and filed, you will need things like mortgage interest, student interest, student tuition paid, medical bills including health insurance (even if you are employed under a group plan) charity deductions, job related expenses, estimates paid in for the entire year, interest on bank and brokerage accounts, gain and loss if you sold securities or rental properties, real estate taxes, sales taxes on big ticket items, teacher expenses, contributions to profitsharing accounts or IRAs. That should keep you busy until the end of January. Then prepare and file. Here's to a refund type of year.

Are you a parent? How generous do you feel towards your children?

Help Your Kids Buy a Home
By: Patricia Mertz Esswein
Kiplinger's Personal Finance

After college, Dan Mazzarini made a beeline for the Big Apple. After working as an interior designer with Michael Kors and Ralph Lauren, among others, he co-founded a business, BHDM Design, in 2012. The following year, a studio apartment came up for sale in Mazzarini's co-op apartment building in Greenwich Village. Mazzarini, 34, decided to go for it. "That's how it happens in New York. You don't have a lot of time to sit and think about things," he says.

The sellers were asking $550,000. After adding up the cost of the 20% down payment required for co-ops and estimated closing costs, Mazzarini realized that the $50,000 he had managed to save wasn't enough. He swallowed his pride, called his parents and asked for help. They told him they would be happy to chip in for what they called a great investment and ponied up $56,000. "You've never asked us for a thing, and you've earned it," said Mazzarini's mom, Clare.

Because the apartment was a fixer-upper and the sellers wanted to make a quick sale, they dropped the price from $550,000 to $499,000. Then Mazzarini negotiated the price down to $445,000. With his savings and his parents' gift, Mazzarini made an $89,000 down payment and paid about $6,000 in closing costs, with the sellers picking up the rest. He used an additional gift from his aunt for renovation.

Accumulating a down payment and closing costs and qualifying for a mortgage have always been hurdles for first-time home buyers. But lately it's been tougher for many young people to save enough, partly because of student-loan debt. Among the benefits of owning a home now: With mortgage rates still historically low (the national average fixed rate for a 30-year mortgage was 3.75% in early March, according to Freddie Mac) and a tax deduction for home interest, a monthly mortgage payment may well be less than you'd pay in rent, given that rents in many cities are high and rising.

Families often extend a helping hand. The National Association of Realtors reported in 2014 that 25% of first-time home buyers received a gift of money toward their purchase, and another 6% received a loan from a family member. But it's important to help in a way that works for—not against—your child and yourself. For example, a loan will add to your child's total debt load, which could make him ineligible for a mortgage. You may incur tax consequences with a gift or loan. And if you are a co-borrower, you put your own credit rating on the line.

<u>A Gift That Keeps on Giving</u>

The simplest strategy? Give a gift that your child can use for a down payment, closing costs and reserved savings, if the lender requires them. You can generally provide the entire down payment. But if you give more than $14,000 in 2015, you'll have to file a gift tax return, and you'll begin to eat into the estate-and-gift tax credit that protects up to $5.43 million (in 2015) in lifetime gifts and bequests from the federal gift and estate tax. (Your spouse can also give up to $14,000). Because Mazzarini's transaction bridged two calendars years, his parents gave the maximum amount of $28,000 per couple in 2013 and 2014.

Lenders must try to verify that your gift isn't a loan in disguise, which would add to your child's debt loan and disqualify him for the mortgage—and they must document the source of gift funds. You must provide a "gift letter," signed by you and your child, that specifies the amount and transfer date of the gift and states that you don't expect repayment. The lender will also ask your child for two months of bank statements. If they show a large deposit of funds, the lender will ask you to document its source.

It's easy to track money pulled from a savings or retirement account. But cash pulled from, say, a home safe can cause problems, says Chris Bennett, of Allen Tate Mortgage, in Charlotte, N.C. He recommends that you deposit the cash in your savings or other account at least 60 days before your child applies for a mortgage.

As closing nears, the lender must also verify that you have transferred the money promised to your child's account. It will ask for a copy of your withdrawal slip or canceled check and a copy of your child's deposit slip, or bank statements showing the withdrawal and deposit of funds. With FHA mortgages, as long as you deposit the gift in your kid's bank account at least 60 days before closing, you won't need to document the transfer of funds. If you won't provide the funds until the day of settlement, you must use a certified check, cashier's check, wire transfer or some other official check.

Finally, the securities markets have generally benefited from the Trump bump. There is a commentator on CNBC that reflects Donald Trump's strategy. He slams a company like Lockheed and Boeing, the stock goes down, people buy on the drop and the stock rallies. Whether this will continue, who knows. But the markets are happy for the near future.

December looked like this....

THE MONTHLY INDEX REPORT FOR DECEMBER 2016

Index	December 2016	QTD	YTD	Description
S&P 500 Index	2.0%	3.8%	12.0%	Large-cap stocks
Dow Jones Industrial Average	3.4%	8.7%	16.5%	Large-cap stocks
NASDAQ Composite	1.2%	1.7%	8.9%	Large-cap tech stocks
Russell 1000 Growth	1.2%	1.0%	7.1%	Large-cap growth stocks
Russell 1000 Value	2.5%	6.7%	17.3%	Large-cap value stocks
Russell 2000 Growth	1.4%	3.6%	11.3%	Small-cap growth stocks
Russell 2000 Value	4.1%	14.1%	31.7%	Small-cap value stocks
MSCI EAFE	3.4%	-0.7%	1.5%	Europe, Australasia & Far East Index
Barclays Capital U.S. Aggregate	0.1%	-3.0%	2.6%	U.S. Government Bonds
Barclays Capital U.S. High Yield	1.8%	1.8%	17.1%	High Yield Corporate Bonds
Aspen MFBI*	0.2%	1.3%	-1.4%	Managed Futures Strategy
3-month Treasury Bill	0.0%	0.1%	0.3%	

Returns as published or estimated through 12/31/16; Returns reflect reinvestment of distributions.
**Aspen Managed Futures Beta Index*

Have a Great Month! Stay warm and enjoy the pageantry of the month. See you later.

Timothy T Fullerton, Sr.