Fullerton Tax & Planning

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"Real People provide Real Service"

April, 2015

A good month for color. Flowers, grass, rabbits, etc.

Also a good month to finalize that annual event, tax date. I call it an annual reunion, since the person(s) only come around once a year. Very interesting the events that happen in one's life in just one year.

So, remember to send in extensions by April 15th, if you are not ready to file. It cuts down the amount of penalty and interest that may occur. Efile if all possible. This year, the state programs were late coming online and there is a mixed bag of refunds getting out the door at the IRS and state. So have patience with the agencies.

Did you know that the IRS can keep your refund if you don't file within three years? You have three years to claim a refund. If you don't claim your refund within three years, the money becomes property of the U.S. Treasury. For 2011 returns, the window closes on April 15, 2015. You must properly address, postmark and mail your return by that date. There is no penalty for filing a late return if you are due a refund.

On retirement……

1. Speak Up at Work

Don't be offensive and disrespectful, but start saying what everyone is thinking about in meetings and afraid to say. After all, the consequences of possibly alternating your career trajectory don't matter to you much anymore, and voicing your concerns could lead to changes within the organization. By being a voice of reason, you will likely feel less frustrated at work. Plus, you'll probably find that people from all levels of the organization will start appreciating and respecting you more for the points you bring up.

2. Get Big, One-Time Expenses Out of the Way

You should go on that lifelong dream vacation, fix the nagging house repair you've been putting off and even upgrade aging cars before you retire. If an expense costs more than you anticipate, you can always compensate by working another few months to pay for it. Tackling large costs while you are working is a

much better strategy than taking a big chunk of money from your nest egg that can't be easily replaced once you leave your job.

3. Max Out Your Retirement Accounts

Many people claim they don't earn enough to contribute the maximum amount to their retirement accounts, but the year leading up to retirement is the perfect time to stash away as much cash as you can. As you approach retirement, you should put a significant percentage of your paycheck away for retirement so that the stash can grow tax-deferred. Or you could put the money in a Roth account and pay the tax now so that you can take tax-free withdrawals later on in retirement.

4. Test-Drive Your Budget

Use this time to start trying out your retirement spending plan. Can you actually live on the proposed monthly budget? Have you missed a few infrequent but inevitable expenses? By trying out your budget, you will feel more confident about your finances. And if you find that you can't get by on your allotted monthly income, there's still time to alter your original plan and retire a bit later.

5. Really Start Exercising

Many stressed-out people have low energy and live an unhealthy life. Now is the time to prioritize your health by making the effort to start exercising. It will be tough at the beginning, but you'll feel great once your body adapts to the new routine. You'll have richer conversations because your energy levels will increase, and you'll feel younger and more alive than ever.

6. Simplify Your Financial Picture

Start to consolidate your financial accounts and consider simplifying your investments. Just remember to consider the tax consequences before you sell investments that have large capital gains. This way, you won't need to spend as much time managing specific investments in retirement, and it will help cut down on the chances you will make a mistake that hurts your finances down the road.

7. Explore Part-Time Retirement

Talk to your boss and see if there are opportunities to work part-time as a consultant. By working less, your stress level will go way down, helping you hang on to your job for a few more years. If that's not an option, ask the management to consider letting you work from home at least part of the time. It's amazing just how much stress a daily commute can add to our lives, and how eliminating it can help you stay more motivated to work. You may even want to start a small business on the side. While not all businesses are successful, there's certainly the hope that a side gig will start making you enough money to help you retire a little sooner or finance a better lifestyle.

ROTH IRA questions….

How much may an individual contribute to a Roth IRA?

An eligible individual may contribute cash to a Roth IRA on his own behalf up to the lesser of the maximum annual contribution limit (equal to the "deductible amount" under IRC Section 219(b)(5)(A)) or 100 percent of compensation includable in his gross income for the taxable year. The amount that can be contributed, however, is reduced by any contributions made to traditional IRAs for the taxable year on his own behalf.
The maximum annual contribution limit is $5,500 in 2015. This amount is indexed for inflation. The

maximum annual contribution limit is increased by $1,000 for individuals who have attained age 50 before the close of the tax year.

SEPs and SIMPLE IRAs may not be designated as Roth IRAs, and contributions to a SEP or SIMPLE IRA will not affect the amount that an individual can contribute to a Roth IRA. Qualified rollover contributions do not count toward the limit. Roth IRA contributions are not deductible and can be made even after the individual turns age 70½.

An individual may contribute cash to a Roth IRA for a non-working spouse for a taxable year up to the maximum deductible limit (disregarding active participant restrictions) permitted with respect to traditional IRAs for such non-working spouse reduced by any such contributions made to traditional IRAs for the taxable year on behalf of the non-working spouse. Thus, a married couple (both spouses under age 50) may be permitted a maximum contribution of up to $11,000 for 2015 ($5,500 for each spouse).

In 2015, the Roth IRA contribution limit is $0 for (1) individuals with AGI of $131,000 and above ($129,000 in 2014), (2) married couples filing a joint return with AGI of $193,000 and above ($191,000 in 2014), and (3) a married individual filing separately with AGI of $10,000 and above. Except for married individuals filing separately, the "applicable dollar amount" is indexed for inflation. The amount of the reduction is rounded to the next lowest multiple of $10. Unless the individual's contribution limit is reduced to zero, the IRC permits a minimum contribution of $200.

2. Can a taxpayer whose income level exceeds the limitations for Roth IRA contributions maintain a Roth IRA?
Yes. Despite the fact that a taxpayer whose income level exceeds the Roth IRA contribution limits cannot contribute directly to a Roth IRA, he or she is permitted to maintain a Roth account. In 2015, the ability to make contributions to a Roth IRA begins to phase out for married taxpayers with income over $183,000 ($116,000 for single taxpayers). Roth contributions are completely blocked for married taxpayers who earn over $193,000 and single taxpayers who earn over $131,000.

While contributions cannot be made directly to the Roth if the taxpayer's income exceeds the annual income threshold, for tax years beginning in 2010, the income limits that applied to prevent high-income taxpayers from making rollovers from traditional IRAs were eliminated.

Therefore, many high-income taxpayers may make contributions indirectly to a Roth account, via a series of rollovers from traditional IRAs. The taxpayer must first open a traditional IRA if the taxpayer does not already maintain such an account (in 2015, each taxpayer can contribute up to $5,500 to an IRA ($6,500 if the taxpayer is 50 or older).[3] The taxpayer can then roll a portion of the IRA into a Roth account each year, though taxes must be paid on the amounts that are rolled over.

3. Can an individual roll over or convert a traditional IRA or other eligible retirement plan into a Roth IRA?

Yes. A "qualified rollover contribution" can be made from a traditional IRA or any eligible retirement plan to a Roth IRA. A rollover was not permitted prior to 2010 if a taxpayer had adjusted gross income ("AGI") of more than $100,000 for the taxable year of the distribution to which the rollover related or if the taxpayer was a married individual filing a separate return.

A change of pace, from the category of "Did you know",

Corporate America has so much cash sitting in the bank that it could purchase the Dallas Cowboys 437 times without borrowing a dime.

Or if these titans of business really love House of Cards they could splurge by acquiring Netflix (NFLX, Tech30) 53 times. They could even buy Apple (AAPL, Tech30), Facebook (FB, Tech30) and Warren Buffett's Berkshire Hatahway (BRKA) and still have cash to play with.

In other words, big American companies literally have more cash than they know what to do with.
The mountain of cash in corporate vaults climbed to a record-high of $1.4 trillion during the fourth quarter, according to a FactSet analysis of S&P 500 companies.

The good news is that means companies like Microsoft (MSFT, Tech30) and Oracle (ORCL, Tech30) have extremely healthy balance sheets. That's useful if another crisis comes along.

The bad news is that at least some of these corporate giants still aren't willing to spend their cash on new equipment, new hires and new research. It would be a big economic boost if companies went on a spending spree. Shareholders would also like bigger dividends given all this cash companies have on hand.
A large part of the problem is the energy sector. The dramatic plunge in oil prices has caused Big Energy CEOs to scale back on spending. Capital expenditures at S&P 500 companies are projected to decline 3.5% over the next 12 months, FactSet said.

"Since we've come out of the recession, Corporate America has become much more cautious about spending," said Mark Litzerman, co-head of real asset strategy at Wells Fargo Investment Institute.
Oil fallout hits spending: Companies like Chevron (CVX) and ConocoPhillips (COP) have disclosed plans to slash spending this year to offset shrinking cash flows. Many oil producers are simply pulling the plug on drilling rigs in response to the oil glut.

That's why analysts believe the energy sector will slash capital spending by 13.5% over the next 12 months, easily the biggest drop in the S&P 500. That's a very big deal because energy accounted for nearly one-third of S&P 500 capex over the past decade and during the fourth quarter it jumped by double-digits.

Not everyone is hoarding: The picture looks a bit better when you look beyond the oil patch. Six sectors in the S&P 500 are projected to boost spending for the next 12 months, led by technology and health care.

U.S. corporations more broadly are expected to increase spending between 3.5% and 6%, according to Liz Ann Sonders, chief investment strategist at Charles Schwab. "We've gone through two cycles where capex is growing but not sharply. It's not been incredibly robust," Sonders said referring to the recovery from the 2001 recession.

Stuff is getting old: There is a silver lining here: At some point companies will be forced to go on a shopping spree to replace their aging stuff.

Then there is the Medicare versus Long Term Care argument.

Medicare offers limited coverage and applies only to skilled care, while LTCI covers many types of care. For LTC to be covered under Medicare, you must meet these stringent requirements:

* You must first be admitted to a hospital for at least three nights. Days under observation don't count.
* You must then be admitted to a Medicare-approved facility, in a Medicare-approved bed.
* You must be receiving skilled nursing home care. In contrast, LTCI coverage isn't triggered by this need, but by the inability to perform two out of six activities of daily living (expected to last 90 days or more) or by a diagnosis of cognitive impairment/Alzheimer's disease.

Typically, Medicare will cover 100% of skilled care for up to 20 days. From days 21 to 100, Medicare will cover all expenses, except for $157.50 per day (which most Medicare supplement plans will cover).

Testing Social Security "What if" Scenarios
By: Mary Beth Franklin
InvestmentNews

Increasingly, people are realizing that when they retire and when they begin to collect Social Security benefits are two separate decisions. Stopping work doesn't mean it's time to claim Social Security, particularly if clients can rely on other income sources while they wait to claim a bigger benefit later.

But what happens if there are several years of reduced earnings—or even no earnings—between the end of work and the beginning of benefits?

HANDY TOOL

There's a handy tool on the Social Security website that can help you and your clients tinker with "what if" scenarios. For example, clients can use the Retirement Estimator to alter the dates for stopping work or to create different future earnings. But the Social Security Administration cautions that it can't provide actual amounts until a person applies for benefits.

The tool works for people who have the required 40 quarters of covered earnings and who are not collecting benefits on their own or another's earnings record. Privacy restrictions don't allow advisers to use the calculator for clients, but you can ask them to use it and share the information with you.

"The closer you are to retirement, the more accurate the retirement estimates will be because they are based on a longer work history with fewer uncertainties such as earning fluctuations and future law changes," Social Security spokeswoman Nicole Tiggemann wrote in an email.

I put my own estimates to the test. Assuming I keep earning the maximum wage or net self-employment income subject to FICA taxes ($118,500 in 2015 and indexed for inflation in future years) over the next six years, until I reach my full retirement age of 66, the estimator projects my benefit at $2,515 a month.

But if I stop working today and earn nothing for the next six years, it projects my monthly benefit will drop to $2,383. Presumably, the difference is based on the missing six years of maximum taxable wages that would not be available to replace six years of lower earnings.

Laurence Kotlikoff, an economics professor at Boston University and creator of Maximize My Social Security software, warns that the Retirement Estimator underestimates future benefits because the agency ignores increases in average wages. As a result, indexing factors are distorted.

Benefits are based on the top 35 years of earnings. Actual earnings are indexed to account for changes in average wages since the year the earnings were received. A separate index factor is applied to each year of earnings. Any earnings received after 60 are recorded at face value.

ADDING AND DIVIDING

Social Security adds the top 35 years and divides the total by 420 (the number of months in 35 years); it then divides that number by 12. The result is the worker's average indexed monthly earnings, or AIME. It is used to compute the worker's full retirement age benefit, known as the Primary Insurance Amount.

Bottom line: Your future Social Security benefit could be larger than the official SSA estimate suggests. Mr. Kotlikoff urges consumers and advisers to use third-party software to generate a more precise benefit projection by entering each year of earnings history.

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