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Spring 2017 www.joelisaacson.com (212) 302-6300

IRS Reveals The "Dirty Dozen" Tax Scams For '17

The IRS has released its annual list of the "Dirty Dozen" tax scams to watch out for in 2017. Here's a recap of the IRS' summary of the top 12:

1. Phishing: A scammer may pose as a representative of an organization you know and trust, perhaps sending mass emails under another person's name or purporting to be a bank, credit card company, tax software provider, or government agency. The goal is to get you to provide personal information.

2. Phone Scams: Crooks may make aggressive phone calls when impersonating an IRS agent. The person might threaten you with police arrest, deportation, license revocation, or some other action—which legitimate agency employees wouldn't do.

3. Identity Theft: Watch out for identity theft, especially during tax-filing season, when someone might steal your Social Security number and use it to file a tax return, claiming a fraudulent refund.

4. Return Preparer Fraud: The vast majority of tax professionals provide honest, high-quality service. But some dishonest preparers perpetrate refund fraud, identity theft, and other scams.

5. Fake Charities: Look out for groups masquerading as charitable organizations to attract donations from unsuspecting contributors. Be wary of charities with names similar to familiar or nationally known organizations. Take a few extra minutes to ensure your hard-earned money goes to legitimate and currently eligible charities. Visit IRS.gov to check out their status.

6. Inflated Refund Claims: Promoters may offer exorbitant refunds. Be wary of anyone who asks taxpayers to sign a blank return, promises a big refund before looking at their records, or charges fees based on a percentage of the refund. Fraudsters rely on flyers, advertisements, phony storefronts—even word of mouth via community groups—to find victims.

7. Excessive Claims for Business Credits: The fuel tax credit —which isn't available to most taxpayers and usually is limited to off-highway business use, including farming—often is claimed improperly. Taxpayers also should avoid misuse of the research credit. Claims for that credit may be disqualified for failure to participate in or to substantiate qualified research activities or to satisfy tax law requirements.

8. Falsely Padding Deductions on Returns: Avoid the temptation to falsely inflate deductions or expenses on returns to pay less than what you owe or to get a bigger refund. Think twice before overstating deductions

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First Quarter Update

The buoyant mood that pushed stocks higher through year-end 2016 continued into the first quarter as signs of an improving global economy continued to mount. Stock indexes were up across the board. Emerging-market stocks were the star performers. Their double-digit gains eclipsed returns for developed international stocks (up 8%), and both outperformed larger-cap U.S. stocks (up 6%). The investing environment also proved favorable for bonds. Treasurys moved higher after the Federal Reserve's widely anticipated mid-March decision to raise interest rates. For the first time in a while, global economic growth is in sync and improving. Corporate earnings estimates are being revised higher in both European and emerging-market countries, and sentiment seems to be turning positive, particularly in Europe. To date, global recession risk appears low.

Yet we remain cognizant of how quickly things can change and still see a high degree of uncertainty present. We are keenly aware that successful investing requires patience and discipline, as well as an ability to live with both noise and uncertainty.

As we move through the year, we are alert to emerging political and geopolitical risks. Particularly now, when market gauges of expected volatility suggest many investors are disregarding downside risks, we remain cautious, seeking to balance returns with appropriate levels of risk and bracing for more stock market volatility. All that said, we continue to stick to our discipline of basing our positioning on a long term time frame, regularly revisiting our analysis, and keeping our focus on managing downside risks. We believe this is the best approach not only to investing, but also to building and maintaining wealth over time.

Trust As IRA Beneficiary: Not Crazy

You may have heard that you can't name a trust as a beneficiary of your IRA—but in fact that is a perfectly legal option for IRA owners. But whether you should do it is a completely different story and requires further analysis.

IRAs can be complicated enough on their own without bringing a trust into the equation. And if you do name a trust as a beneficiary and then make a mistake with your account, the tax consequences could be devastating—so proceed with extreme caution. You'll need to work with an attorney experienced in these matters.

Why would you want to name a trust as your IRA beneficiary? It's not a tax-saving move and indeed could increase your tax bill. Still, there are valid reasons for using this planning technique. The primary benefit is protection against the IRA assets being squandered or attached by creditors. For example, you might want to pass money in an IRA to someone who is under age 21 and may not have much experience handling financial affairs or to a family member who is known to be a spendthrift. Having the account pass into a trust could enable a trustee to control how the money is distributed.

In a similar vein, you might intend to provide IRA funds to your spouse in a second or third marriage, but without shortchanging your children from an earlier marriage. In that case, you might leave the assets to a trust that pays out income to support a surviving spouse for life, with the remainder going to the children.

In any of these cases, naming a trust as your IRA beneficiary could be helpful—though, again, you'll need to work with an attorney with specialized knowledge of trusts and estate planning. Having the proper language in documents for the IRA and the trust is crucial.

One key aspect of such an arrangement is that the trust you name as IRA beneficiary should have people—and not an institution or your estate—as its beneficiaries. That could enable those beneficiaries to use "stretch IRA" planning techniques to lengthen the amount of time that assets can utilize an IRA's tax advantages. Although required minimum distributions (RMDs) still will have to happen, they'll be based on the life expectancies of the ultimate beneficiaries. The younger they are, the longer the money can be shielded from taxes. If more than one nonspouse beneficiary is named in a trust, the age of the oldest living beneficiary must be used. Consider separate trusts for each nonspouse beneficiary.

A variation on this theme calls for naming your spouse as the primary beneficiary and the trust as the contingent beneficiary. Such a setup provides greater flexibility because the surviving spouse may roll over the inherited IRA assets into his or her own IRA as part of post-mortem estate planning. ●

When To Disclaim An Inherited IRA

Should you ever pass up a chance to get more money? It depends. Suppose you're in line to inherit IRA assets. When it makes sense, you might use a "qualified disclaimer" so that the assets bypass you on the way to someone else.

A disclaimer is a legal document that lets you waive your right to receive money or property from an estate. If you execute a disclaimer, it's as if you never inherited the assets. Instead, they go directly to the next people in line to receive them. In the case of an IRA, the assets typically wind up with the account's contingent beneficiaries.

Why would you do this? There are two main reasons:

1. Assuming you don't need the money, you might prefer that the assets go directly to the younger generation, usually your own kids or grandkids. You were going to give the assets to them eventually anyway, right? A disclaimer shortens the process while lengthening the time over which the beneficiaries must take required minimum distributions (RMDs) from the account. RMDs are based on the life expectancies of the beneficiaries, so the younger they are, the longer the wealth can be preserved.

2. A disclaimer may reduce a family's overall tax liability. The RMDs from IRAs generally are taxed at ordinary income rates, which go as high as 39.6%. Younger children and grandchildren are likely to pay tax at a much lower rate.

For a disclaimer to work, it has to be an irrevocable, unqualified refusal to accept property, and it must meet the following requirements:

- It must be in writing with a declaration and signature of the person who is making the disclaimer.
- It must identify the property (or the partial interest in the property) that is being

Four Tax-Wise Ways To Donate Gifts To Charity

How can you donate to charity? Let us count the ways. Although there are many variations on these themes, there are four basic paths for making contributions to charitable organizations that let you take tax deductions while pursuing your philanthropic goals. They are:

1. Direct contributions: This is the easiest method. You simply write a check or make an online donation. If you're giving tangible property, such as artwork, you'll need to deliver it physically to the charitable group.

Most such contributions are fully deductible on your tax return, but there could be limitations on the size of your write-off based on your adjusted gross income (AGI) for the year:

- Contributions to public charities are limited to 50% of your AGI.
- Contributions of appreciated property (for example, publicly traded stocks) to public charities can't exceed 30% of your AGI.
- Contributions of appreciated property to private foundations are limited to 20% of your AGI.

But in all of these cases any amount that exceeds the limits can be claimed on the following year's return, and such "carryovers" may continue for up to five years.

2. Donor-advised funds: With a donor-advised fund, you give your money to a fund that's set up with an institutional partner. There might be a minimum contribution amount, and the fund may charge fees to cover its costs. But one big advantage of this approach is that you can make a donation to the fund and get an immediate tax deduction and then decide later where you want your money to go.

Once you choose to give a specified amount to a particular charity, the fund will verify that the organization is eligible to receive tax-deductible contributions. Once your grant is approved, the money goes to the group with an indication that it was made on your recommendation. You also can request that your gift be made anonymously.

3. Charitable gift annuities: This approach is somewhat more sophisticated than direct gifts and donor-advised funds. A charitable gift annuity is a contract between a donor and a charity. You agree to transfer money, securities, or other assets to the organization, which in turn agrees to make specified payments to "annuitants"—usually you or you and someone else you designate.

What are the tax consequences? As the donor, you're entitled to a charitable deduction in the year you make your donation to the charity that is adjusted to account for the expected payments you'll receive, based on your life expectancy and other factors.

4. Charitable trusts: There are two main types to consider: the charitable remainder trust (CRT) and the charitable lead trust (CLT).

With a CRT, you set up the trust and transfer selected assets to it. The charity often acts as the trustee and manages the assets. During the trust term, you (or another beneficiary or beneficiaries you specify) receive regular payments from the trust. The CRT may last for a term of specified years or your lifetime. Finally, when the trust ends, the remaining assets from your contribution (the remainder) go to the charity. You get a current tax deduction based on the projected value of that remainder.

A CLT works the opposite way. You still transfer assets to the trust, but annual payments go to the specified charity, and the remainder at the end of the trust term goes to the beneficiaries you designated.

Regardless of whether you use a CRT or a CLT, the annual payments may be based on a fixed amount or a percentage of assets. Other special rules apply, so be sure to obtain expert guidance.

This is a brief overview of current rules. But these approaches could be affected by proposed tax changes. We'll keep you up to date on any changes. ●

disclaimed.

- It must be delivered to the party or entity responsible for transferring the assets (for example, an IRA custodian or trustee).
- The disclaimer has to be executed less than nine months after the property was transferred (or within nine months of when the disclaiming person reaches age 21, if that's sooner).
- As a result of the disclaimer, the assets must pass to the new recipients without any direction from the person making the disclaimer. You can't decide to give the money to someone other than the legal beneficiaries next in line.

This process can be technically complicated, so you'll need to work with an attorney to provide the proper language for a disclaimer, which must take into account whatever is required under state law. Also, take great care in completing any beneficiary designation forms furnished by an institution. ●

Teach Employees About Computer Scams

Computer criminals seem to be stepping up their efforts to steal your personal and financial information—and your money.

The two most common approaches are the "tech support" scam, aimed primarily at individuals, and the "ransomware" scam, mostly used against businesses.

In a typical tech support scam, unsolicited phone callers say they are calling about "Windows," the popular operating system of computer software giant Microsoft. Don't believe it.

Microsoft says it never makes unsolicited phone calls about Windows computer problems.

Do not allow such a caller to take control of your computer. Hang up the phone immediately. This scam has been around since 2009.

Ransomware schemes have been around even longer, since 1989 when a disturbed biologist sent infected floppy discs to an AIDS conference sponsored by the World Health Organization.

This scam is aimed at businesses primarily because all it takes is for one employee to click on a link that then allows a scammer to take control of a business's computer system by shutting down the system or paralyzing it with encrypted, unintelligible jargon.

The scammer then demands a ransom, usually to be paid through an untraceable virtual currency such as bitcoin, to unlock the system and return it to normal.

The Federal Bureau of Investigation estimates that since 2015, U.S. companies have paid a total of $25 million to ransomware scammers.

The ransomware scam can start with a phone call much like the ones used by tech support scammers. In such a case, an employee is urged to allow the caller to obtain access to a business's computer system. Again, don't do it! Ever!

Today's version of the increasingly complicated scam also can start with a "phishing" email that asks a business computer user to click on a link to a website, article, or photograph that appears to be legitimate.

Scammers, in fact, are adept at creating legitimate-looking company names, fake caller IDs, and bogus company logos.

Business owners may be able to avoid these pitfalls by educating their employees about ransomware scams and how they work.

First, tell your employees never to take an unsolicited phone call from a stranger and then allow the caller access to your company's computer system.

Tell your employees not to rely on caller ID numbers to authenticate calls.

Also tell them about phishing emails that offer information or rewards if an enclosed link is clicked on.

Tell them never to click on a link from an unknown source, even if the email contains a legitimate-looking company name and logo.

If your employees don't know the source of an email, tell them not to click on a link or attachment – ever! ●

Tax Scams For '17

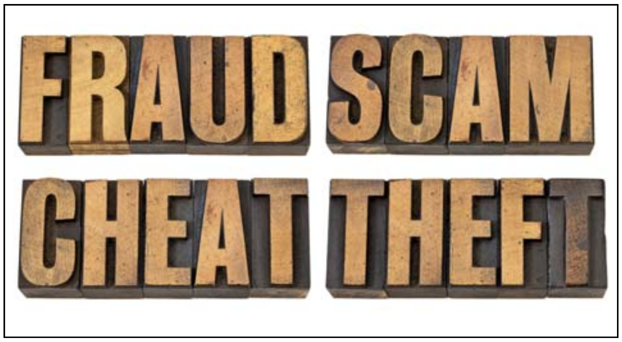
(Continued from page 1)

such as charitable contributions and business expenses or improperly claiming credits such as the Earned Income Tax Credit (EITC) or Child Tax Credit (CTC).

9. Falsifying Income to Claim Credits: Avoid the temptation to inflate deductions or expenses on your return to underpay taxes and possibly receive a larger refund. Overstating deductions for charitable contributions and business expenses or claiming invalid personal credits could lead to large bills for back taxes, interest, or even criminal prosecution.

10. Abusive Tax Shelters: Abusive tax schemes have evolved from illegal domestic and foreign trust arrangements into even more sophisticated strategies. These scams often take advantage of the financial secrecy laws of some foreign jurisdictions and the availability of credit or debit cards issued from offshore financial institutions.

11. Frivolous Tax Arguments: The IRS also describes common frivolous tax arguments made by those who refuse to comply with federal tax laws. Frequently, taxpayers refuse to pay taxes on religious or moral grounds by invoking their First Amendment rights. Those efforts inevitably fail, and the penalty for filing a frivolous tax return is $5,000.



12. Offshore Tax Avoidance: A recent string of successful enforcement actions against offshore tax cheats and the financial organizations that help them shows why it's a bad bet to hide money and income offshore. Taxpayers are served best by coming in voluntarily and taking advantage of the IRS Offshore Voluntary Disclosure Program to catch up on their tax responsibilities. ●