July 2015
Newsletter

Korbitz Financial Planning LLC
Eric S. Korbitz, CPA, CFP®
PO Box 170049
Milwaukee, WI 53217
414-979-1040
Eric@KorbitzFinancialPlanning.com
www.KorbitzFinancialPlanning.com

Clients and Friends:

With the large number of identity theft tax cases reported by the IRS this past filing season, I have decided to address the issue of information security in this newsletter. I have also included two other articles to add to last month's newsletter discussion of college related issues.

I also wanted to make you aware that the IRS has issued a consumer alert due to the increased number of reported fraudulent calls. The IRS wants you to know that they **will** **never** :

Call about taxes you owe, without first mailing you an official notice, demand that you pay taxes, without allowing you to question or appeal the amount, require you to use a specific payment method over the phone or use unsolicited e-mail, text messages or any social media to discuss your tax issue.

If you ever get a call from someone claiming to be from the IRS, do **not** provide **any** information to them, and tell them to write to you instead.

As always, if you have any questions, please do not hesitate to contact me.

Eric

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Tax Return Fraud

Recently there has been a dramatic increase in the number of fraudulently filed income tax returns.This article is intended to let you know how this happens, how you find out about it, what to do if it happens to you, and finally what you can do to try to avoid this unfortunate situation.

How can someone file a fraudulent income tax return? Most of these criminals have obtained your name and Social Security Number. They may have your address, but that is not really needed. They generally steal this information from a list that they have obtained. The criminal then files a return early in the filing season, and makes up virtually every piece of information - income, deductions, withholding. The return will ALWAYS have a refund due, and they will direct that refund either to a temporary bank account or to a pre-paid debit card. Once the money is received, the criminal will close the account and move on to the next victim.

The IRS does NOT match the information on a return to the source documents, such as Form W2, 1099, etc. prior to issuing a refund. They do not have the ability to do so in real time, and the matching would take weeks or months significantly delaying refunds. I think that real time tax document matching will come. It is simply a matter of how much pressure is put on the IRS by Congress and the Administration. This will help in reducing, if not eliminating, this type of tax fraud.

How do you know that someone has filed a return on your record? Generally, you become aware of it when you (or your tax preparer) attempt to extend or file your return. If the extension or filing is rejected and you are told that your return has already been filed, that is often your first clue that you are the victim of tax identity theft.

If a tax return was filed using your information, and not by you, you should:

1. File an IRS Form 14039 with your paper filed returns. You cannot e-file these returns since a return has already been received by the IRS for your Social Security Number.
2. File a report with the local police.
3. File a complaint with the Federal Trade Commission (FTC.gov).
4. Put a fraud alert on your credit record with one or more of the three major credit bureaus (Equifax, Experian or Transunion.)
5. Notify your bank and financial institutions that this has occurred. They may have their own additional security precautions you will need to take.
6. Take advantage of the Personal Identification Number (PIN) that the IRS will assign to you. Using this will protect you from fraud in the future. (No, you cannot request a PIN in advance of tax fraud.)
7. Consider purchasing a credit monitoring service, such as Experian Protect My ID, LifeLock or CreditCheck Monitoring.
8. Consider putting a freeze on your credit. This restricts who can see your credit report. If you subsequently need to obtain additional credit, you will need to thaw your credit report so potential creditors can see your credit report to grant you credit.

The steps you can take to try to avoid this problem are:

• Protect your Social Security number. Unfortunately, it is needed for many business transactions we engage in. Resist when asked, and only provide it to a vendor when you absolutely have to.
• Try to structure your tax return to have a balance due, rather than a refund. The IRS will always accept your money with a paper filed return. If you have a refund coming and your return is compromised, it will likely take 6-9 months to get your refund.
• File your tax return as early as feasible. Those with complex tax situations are generally unable to do this, but file as soon as you reasonably can.
• Monitor your credit reports for unusual activity at AnnualCreditReport.com.
• Freeze your credit reports.

Three College Savings Strategies with Tax Advantages

529 plan fast facts

Total assets in 529 plans reached a record $247.9 billion at the end of 2014 (up from $227.1 billion in 2013). The total number of accounts was 12.1 million (up from 11.6 million in 2013), and the average account balance was $20,474 (up from $19,584 in 2013). Source: College Savings Plans Network, 529 Report: An Exclusive Year-End Review of 529 Plan Activity, March 2015

To limit borrowing at college time, it's smart to start saving as soon as possible. But where should you put your money? In the college savings game, you should generally opt for tax-advantaged strategies whenever possible because any money you save on taxes is more money available for your savings fund.

529 plans

A 529 plan is a savings vehicle designed specifically for college that offers federal and state tax benefits if certain conditions are met. Anyone can contribute to a 529 plan, and lifetime contribution limits, which vary by state, are high--typically $300,000 and up.

Contributions to a 529 plan accumulate tax deferred at the federal level, and earnings are tax free if they're used to pay the beneficiary's qualified education expenses. (In his State of the Union speech in January, President Obama proposed eliminating this tax-free benefit but subsequently dropped the proposal after a public backlash.) Many states also offer their own 529 plan tax benefits, such as an income tax deduction for contributions and tax-free earnings. However, if a withdrawal is used for a non-educational expense, the earnings portion is subject to federal income tax and a 10% federal penalty (and possibly state tax).

529 plans offer a unique savings feature: accelerated gifting. Specifically, a lump-sum gift of up to five times the annual gift tax exclusion ($14,000 in 2015) is allowed in a single year per beneficiary, which means that individuals can make a lump-sum gift of up to $70,000 and married couples can gift up to $140,000. No gift tax will be owed if the gift is treated as having been made in equal installments over a five-year period and no other gifts are made to that beneficiary during the five years. This can be a favorable way for grandparents to contribute to their grandchildren's education.

Also, starting in 2015, account owners can change the investment option on their existing 529 account funds twice per year (prior to 2015, the rule was once per year).

Note: *Investors should consider the investment objectives, risks, fees, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. Finally, there is the risk that investments may lose money or not perform well enough to cover college costs as anticipated.*

Coverdell education savings accounts

A Coverdell education savings account (ESA) lets you contribute up to $2,000 per year for a child's college expenses if the child (beneficiary) is under age 18 and your modified adjusted gross income in 2015 is less than $220,000 if married filing jointly and less than $110,000 if a single filer.

The federal tax treatment of a Coverdell account is exactly the same as a 529 plan; contributions accumulate tax deferred and earnings are tax free when used to pay the beneficiary's qualified education expenses. And if a withdrawal is used for a non-educational expense, the earnings portion of the withdrawal is subject to income tax and a 10% penalty.

The $2,000 annual limit makes Coverdell ESAs less suitable as a way to accumulate significant sums for college, though a Coverdell account might be useful as a supplement to another college savings strategy.

Roth IRAs

Though traditionally used for retirement savings, Roth IRAs are an increasingly favored way for parents to save for college. Contributions can be withdrawn at any time and are always tax free (because contributions to a Roth IRA are made with after-tax dollars). For parents age 59½ and older, a withdrawal of earnings is also tax free if the account has been open for at least five years. For parents younger than 59½, a withdrawal of earnings--typically subject to income tax and a 10% premature distribution penalty tax--is spared the 10% penalty if the withdrawal is used to pay a child's college expenses.

Roth IRAs offer some flexibility over 529 plans and Coverdell ESAs. First, Roth savers won't be penalized for using the money for something other than college. Second, federal and college financial aid formulas do not consider the value of Roth IRAs, or any retirement accounts, when determining financial need. On the flip side, using Roth funds for college means you'll have less available for retirement. To be eligible to contribute up to the annual limit to a Roth IRA, your modified adjusted gross income in 2015 must be less than $183,000 if married filing jointly and less than $116,000 if a single filer (a reduced contribution amount is allowed at incomes slightly above these levels).

And here's another way to use a Roth IRA: If a student is working and has earned income, he or she can open a Roth IRA. Contributions will be available for college costs if needed, yet the funds won't be counted against the student for financial aid purposes.

How Does Your 529 Plan Stack Up Against the Competition?

Mediocre investment returns, higher-than-average fees, limited investment options and flexibility--these factors might lead you to conclude that you could do better with another 529 plan or a different college savings option altogether.

If you're one of the millions of parents or grandparents who've invested money in a 529 plan, now may be a good time to see how your plan stacks up against the competition. Mediocre investment returns, higher-than-average fees, limited investment options and flexibility--these factors might lead you to conclude that you could do better with another 529 plan or a different college savings option altogether. You can research 529 plans at the College Savings Plans Network website at collegesavings.org. If you discover that your 529 plan's performance has been sub-par, what options do you have?

Roll over funds to a new 529 plan

One option is to do a "same beneficiary rollover" to a different 529 plan. Under federal law, you can roll over the funds in your existing 529 plan to a different 529 plan (college savings plan or prepaid tuition plan) once every 12 months without having to change the beneficiary and without triggering a federal penalty.

Once you decide on a new 529 plan, the rollover process is fairly straightforward. Call your existing 529 plan to see what steps are required; some plans may impose a fee for a rollover, so make sure to ask. Then call your new 529 plan and establish an account; your new plan should have a process in place to accept rollover funds. You must complete the rollover to the new 529 plan within 60 days of receiving a distribution from your former 529 plan to avoid paying a penalty.

If you want to roll over the funds in your existing 529 plan to a new 529 plan more than once in a 12-month period, you'll need to change the designated beneficiary to another qualifying family member to avoid paying a federal penalty. As a workaround, you can change the new beneficiary back to the original beneficiary later.

Change your investment strategy in your current 529 plan

Just because you can switch to a new 529 plan doesn't necessarily mean you should. If the new 529 plan you're considering has roughly the same mix of investment choices and similar fees as your current plan, you might ask yourself whether you'd be better off staying put and simply changing your current investment allocations. This is especially true if you have invested in your own state's 529 plan and the availability of related state tax benefits is contingent on you remaining in your state's plan.

When changing your investment options, it's important to distinguish between your existing contributions and your future contributions. Most 529 college savings plans let you change the investment options for your future contributions at any time. So, for example, if you originally picked a more aggressive investment option, you can choose a different one (or more than one) for your future contributions.

The rules are stricter when it comes to your existing contributions. If you're unhappy with the investment performance of your current investment choices but don't want to switch plans completely (using the rollover option described earlier), 529 college savings plans are federally authorized (but not required) to let you change the investment options for your existing contributions twice per calendar year (prior to 2015, the rule was only once per year). Check to see whether your 529 plan offers this flexibility.

Choose other savings options that give you more investment control

If your 529 plan investment returns have been lackluster, you might wonder whether you should continue putting money into your account. Although many 529 plans offer a range of investment options that you can pick from, you might decide that you'd like more control over your college investments. In that case, you might consider using an entirely different sayings option, such as a Coverdell education savings account, a custodial account, or an IRA, all of which let you choose your underlying investments.

As you evaluate your options, keep in mind that any college investment strategy should be reexamined periodically in light of new laws and changes in your individual circumstances.

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.*

Korbitz Financial Planning LLC
Eric S. Korbitz, CPA, CFP®
PO Box 170049
Milwaukee, WI 53217
414-979-1040
Eric@KorbitzFinancialPlanning.com
www.KorbitzFinancialPlanning.com

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What is this new chip-card technology I've been hearing about in the news?

In recent years, data breaches at major retailers have increased across the United States. As a way to counteract these data breaches, many U.S. credit-card companies have started implementing a more secure chip-card technology called EMV (which is short for Europay, Mastercard, and Visa).

Currently, most retailers use the magnetic strips on the back of your debit or credit card to access your account information. Unfortunately, the information contained in the magnetic strips is easily accessed by hackers. In addition, the magnetic strips use the same account information for every transaction. So once your card information is stolen, it can be used over and over again.

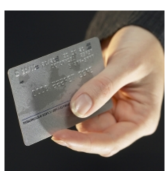
With the new EMV technology, debit cards and credit cards are embedded with a computer chip that generates a unique authentication code for each transaction. So if your card information is ever hacked, it can't be used again--it's a "one-and-done" scenario.

While many developed nations moved to EMV technology years ago, U.S. retailers have previously been unwilling to shoulder the costs. Fortunately, there is good news for U.S. consumers on the horizon.

Beginning in 2015, many large retailers will switch to the new EMV technology by installing payment terminals designed to read the new chip-embedded payment cards. It may take additional time, however, for smaller retailers to adopt this latest technology.

Along with EMV, even more advanced encryption technology is being developed that will increase security for online transactions and payments made with smartphones. In fact, new mobile payment options like Apple Pay and Google Wallet could eventually make paying with plastic entirely obsolete.

In the meantime, in the wake of these data breaches, you should make it a priority to periodically review your credit-card and bank account activity for suspicious charges. If you typically wait for your monthly statements to arrive in the mail, consider signing up for online access to your accounts--that way you can monitor your accounts as often as needed.



Am I liable for unauthorized transactions on my debit card?

It depends. Federal law provides consumers with protection against most unauthorized credit- and debit-card transactions.

Under federal law, consumer liability for unauthorized credit-card transactions is limited to $50. However, many banks and credit-card companies offer even more protection for credit cards in the form of "zero liability" for unauthorized transactions.

For unauthorized debit, rather than credit, transactions, the rules get a bit trickier. For the most part, you won't be held responsible for any unauthorized debit-card withdrawals if you report the lost card before it's used. Otherwise, the extent of your liability depends on how quickly you report your lost card. If you report your lost debit card within two business days after you notice your card is missing, you'll be held liable for up to $50 of unauthorized withdrawals. If you fail to report your lost debit card within two days after you notice your card is missing, you can be held responsible for up to $500 of unauthorized withdrawals. And if you fail to report an unauthorized transfer or withdrawal that's posted on your bank statement within 60 days after the statement is mailed to you, you risk unlimited liability.

The good news is that some banks and credit-card companies are offering the same "zero liability" protection to debit-card users that they offer to their credit-card users. This zero liability protection, however, does come with exceptions. In order to have zero liability for unauthorized debit-card transactions, consumers may be required to report the loss of their card "promptly" (typically, no more than two days after they learn of the card loss or theft). In addition, a consumer may need to exercise "reasonable care" to safeguard his or her debit-card information. For example, an individual who gives someone else his or her debit card and PIN could be held responsible for any unauthorized transactions.

It's important to remember that, unlike credit cards, debit cards directly link to your financial accounts. As a result, you should act quickly and call your bank or credit-card company as soon as you learn of any unauthorized transactions on your account.