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Newsletter October 2019

October Extended Due Date Just Around the Corner

October 15: Extended Individual and C-corp tax return filing deadline

If this office is waiting for some missing information to complete your return, we will need that information at least a week before the October 15 due date. Please call this office immediately if you anticipate complications related to providing the needed information, so that a course of action may be determined to avoid the potential penalties.

Smart Money Moves to Make Once You Turn 50

Congratulations, you made it to half a century!

Your fifties can be a tumultuous time: Not having to work anymore sounds like a dream, but you might be concerned you don't have enough saved for retirement. Those concerns definitely aren't unfounded as 40 million households in America have no retirement savings at all. Additionally, the Federal Reserve found that as of 2016, the median account balance of most retirement assets was only $60,000 with an average of $228,900. Given that healthcare and housing costs alone can easily deplete that amount during retirement, this is a growing concern nationwide.

Your fifties are a crucial period to build up your retirement savings. This is especially true if you didn't get to save as much when you were younger due to lower earnings, recessions, caring for children, or other roadblocks that prevented you from getting started on a nest egg early. While you may be facing new difficulties such as higher risk if you lose your job and can't get another one due to ageism, paying for eldercare, or funding your children's college education, **you still must prioritize retirement savings**. There are many tax-advantaged savings strategies you can leverage once you reach age 50 or 55 to start catching up to where your retirement contributions should be. Here's where your money needs to go once you turn 50 and it's time to get serious about building wealth.

Utilize Catch-Up Contributions with Your Retirement Savings Plan

Most standard retirement plans have a catch-up contribution that kicks in once you turn 50. These catch-up caps are separate of the indexed annual cap on your retirement contributions:

- **401(k), SARSEP, governmental 457(b) plans**: $6,000
- **403(b)**: $6,000 if you have at least 15 years of service
- **SIMPLE IRAs and 401(k)s**: $3,000 and salary reduction contributions do not count until they reach the annual cap ($13,000 in 2019)
- **Traditional and Roth IRAs:** $1,000

For example, if you have a 401(k) at work, the cap for 2019 is $19,000 so your total annual contribution can be as high as $25,000 if you are 50 or older. If you have an employer match, you should take advantage of this cap and additional catch-up contribution to maximize your savings as employer matches are the closest you can get to absolutely free money.

Open a Health Savings Account (HSA) and Max It Out

Medical expenses are a cold hard reality at any age, but especially once retirement age approaches. HSAs are tax-advantaged savings plans where the funds grow tax-free, and distributions are also tax-free provided that you had medical bills.

You must be enrolled in a high-deductible health plan, and Medicare enrollees aren't allowed, so you need to take advantage of this strategy while you are still enrolled in a health plan. For self-only coverage, the minimum deductible is $1,350 and maximum is $6,750 for 2019 ($2,700 and $13,500 respectively for family coverage).

Your contribution limit can vary based on the type of health coverage you have, your age, when you became eligible, and when you're no longer eligible. Assuming your coverage is consistent, you can contribute up to $3,500 to an HSA if you have self-only coverage ($7,000 for family).

HSAs often function as supplementary retirement assets because you don't pay any tax on distributions made after you turn 65, or you become permanently and totally disabled. They are frequently overlooked, but you should contribute to an HSA so long as you have a qualified health plan.

Get Long-Term Care Insurance

The need for care is going to be a reality for millions of Americans who may not have much family to help them out in retirement age or don't want to burden their loved ones. Keep in mind that 70% of Americans over 65 end up needing long-term care. If you don't already have long-term care insurance, you need to start comparing rates now. Some policies are even bundled with life insurance, or act as a hybrid of the two insurances, if you want to ensure that your loved ones will be cared for if anything happens to you sooner.

If you are self-employed, you can deduct your long-term care insurance premiums. Some states also offer tax benefits regardless of employment, such as New York, Idaho, and Indiana. For federal tax purposes, you can deduct long-term care insurance premiums as a medical expense exceeding 10% of your adjusted gross income, although the 2018 tax reform has vastly reduced the number of taxpayers who itemize.

Entering your fifties can feel like a pivotal transition. No matter how much saving and preparing you were able to do earlier in your life, there is still plenty of time (and you have many options) for “catching up” or continuing to improve your financial position for the long-term.

What Is the Statute of Limitations on Unpaid Taxes?

If you have unpaid taxes that you haven't yet been making payments toward, it might make you fearful that the IRS will come a-knocking one day to collect on what you owe. Tax debt can quickly snowball from interest, penalties, late fees, and the amount of the taxes due. However, a lot of the scaremongering surrounding the IRS is largely sensationalized in media and daily conversation. Agents won't come bursting through your door just because you have tax debt. Instead, they must follow due process in accordance with the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA). This means that you will always receive written notice concerning your balance due as well as collection actions and any requests for payment plans or settling your account.

However, if you haven't received further notification concerning what you owe, you may be able to ride out the little-known statute of limitations on tax debt collections, which is 10 years.

What the 10-Year Statute of Limitations Entails

Your tax debt can actually be canceled in 10 years if the IRS makes no efforts to collect on your account — and if you also don't contact the IRS. However, it's not as simple as just waiting a decade without ever paying the taxes you owe. There are conditions that must be satisfied. The first is that this 10-year time frame doesn't begin when you filed that tax return with a balance due or when you realized you owed taxes you couldn't pay.

The official statute of limitations date begins once you receive written notice from the IRS concerning what you owe. You may receive a notice of deficiency with an actual tax bill or a substitute tax return if you didn't file by the due date. So, if you filed your tax return on June 15, 2019, and got a notice in the mail dated September 1, your statutory period would begin September 1, not June 15. This date is called the CSED (Collection Statute Expiration Date), and if you make it to September 1, 2029, without further collection actions, then you can actually get your entire tax bill from this period canceled. (Note: Future tax bills, such as next year's taxes you also can't afford to pay on the due date, do not count toward this.)

However, the IRS will not notify you of this. While the date of assessment is also generally when that notice is received, the IRS has argued over when the assessment date actually was. Some situations can also delay the CSED by halting the clock on the 10-year time frame, such as:

- Filing for bankruptcy
- Being outside the U.S. for at least six months
- Military deferment
- Submitting an offer in compromise to settle back taxes
- Filing a lawsuit against the IRS
- Having your assets held in court custody due to divorce, judgments against you, etc.

It takes six months after bankruptcy cases settle to get the clock restarted on the CSED, so this means the IRS has more time to take collection actions against you, and the IRS will tend to ramp up these efforts before the statute of limitations expires.

State Tax Debt

Unlike the IRS, state tax departments do not have reciprocity with the RRA or the Taxpayer Bill of Rights. Taxpayers who are subject to state income tax need to find out what options, if any, are offered by their state tax department. State tax departments may actually take harsher collection actions since they don't have to have oversight committees and the option for taxpayers to settle back taxes or make payment plans, and they do not have a statute of limitations on collections. The IRS tends to get a bad rap in movies and on TV, but it's actually the state tax departments that are more likely to show up unannounced or issue liens a lot sooner.

It's very rare than anyone rides out the statute of limitations, and it's usually due to extenuating circumstances like disability or a debilitating business closure. If enough time has passed that you think you might be able to go the whole 10 years without payments or responses to collection actions, you must keep fastidious records of all correspondence with the IRS. If the IRS sent you little or no mail in the time period after the time you think the CSED kicked off, you may qualify for the statute of limitations but should not intentionally try to ride it out without the guidance of a tax professional specializing in tax relief and resolution issues.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

Scott Jensen
Kramer & Jensen, LLC

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