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Don't Be Duped by Clever Scammers

You may think we try to warn you a lot about protecting yourself against identity theft and tax scams. You are right… but we do it because having your identity stolen becomes an absolute financial nightmare, sometimes taking years to straighten out. Identity thieves are clever and relentless, and they are always coming up with new schemes to trick you. And all you have to do is slip up just once to compromise your identity, and your nightmare will begin.

What they try to do is trick you into divulging personal information such as your bank account numbers, passwords, credit card numbers, or Social Security number.

One of the most popular methods these unscrupulous people use is requesting your personal information by e-mail. They are pretty good at making their e-mails look as if they came from a legitimate source such as the IRS, your credit card company, or your bank.

We have seen bogus e-mails that looked like they were from the IRS, well-known banks, credit card companies, and other pseudo-legitimate enterprises. The intent is to trick you and have you click through to a website that also appears legitimate, where they have you enter your secure information. Here are some examples:

- E-mails that appear to be from the IRS indicating you have a refund coming and claiming that additional information is needed to process the refund. The IRS never initiates communication via e-mail. If you receive this type of e-mail, right away, you should know that it is bogus. If you are concerned, please free to call this office.

- E-mails from a bank indicating that it is holding a wire transfer and needs your bank routing information and account number. Don't respond; if in doubt, call your bank.

- E-mails saying you have a foreign inheritance and that the sender needs your bank info to wire the funds. The funds that will get wired are yours going the other way. Remember: if it seems too good to be true, it generally is.

There have been cases where elderly individuals have been duped out of hundreds of thousands of dollars, and sometimes their entire life savings. The scammers primarily rely on individuals' fear of the IRS, coupled with a phony urgent need to make a payment to avoid arrest, foreclosure, or property seizure.

The key here is for you to be highly suspect of any e-mail requesting personal or financial information or requesting an immediate tax payment. A good rule of thumb is to STOP—THINK—DELETE.

If you receive electronic correspondence from the IRS, your state taxing agency, a credit card company, or a financial institution and feel uncomfortable ignoring it, call this office to check so you won't need to worry.

Knowing that this is the time of year when the IRS sends correspondence to taxpayers, scammers will send fake letters to try to trick people into making payments on bogus tax liabilities. As a result, taxpayers need to be very careful to avoid being hoodwinked by these thieves. The best practice is to have a tax professional review any tax letter that you receive before you take any action. If the letter is real, then it will require a timely response, but if it is fake, it should be ignored.

Scammers have also been known to call individuals and threaten immediate arrest if a payment related to a phony liability is not immediately made. Just the threat of arrest is enough to know that the call is from a scammer, and you should immediately hang up.

Bottom line: you should be on guard against these scammers at all times. Your life can become a nightmare if your identity is stolen. Identity thieves might even file tax returns under your Social Security number, claiming huge refunds and leaving you with a horrendous mess to clean up with the IRS. Don't be a victim. Please call this office if you believe your tax ID has been compromised.

Divorced, Separated, Married or Widowed This Year? Unpleasant Surprises May Await You at Tax Time

Taxpayers are frequently surprised when their tax filing status changes because of a life event such as marriage, divorce, separation or the death of a spouse. These occasions can be stressful or ecstatic times, and the last thing most people will be thinking about are the tax ramifications. But the ramifications are real, and the following are some of the major tax complications for each situation.

Separated – Separating from a spouse is a complicated life event and can certainly be stressful for the family involved. For taxes, a separated couple can file jointly, because they are still married, or file married separate returns.

- *Filing Status* – If the couple has lived apart from each other for the last 6 months of the year, either or both of them can file as head of household (HH) provided that the spouse(s) claiming HH status paid over half the cost of maintaining a household for a dependent child, stepchild or foster child. A spouse not qualifying for HH status must file as a married person filing separately if the couple chooses not to file a joint return. The married filing separate status is subject to a host of restrictions to keep married couples from filing separately to take unintended advantage of the tax laws.

In most cases, a joint return results in less tax than two returns filed as married separate. However, when married taxpayers file joint returns, both spouses are responsible for the tax on that return (referred to as joint and several liability). What this means is that one spouse may be held liable for all of the tax due on a return, even if the other spouse earned all of the income on that return. This holds true even if the couple later divorces, so when deciding whether to file a joint return or separate returns, taxpayers who are separated and possibly on the path to a divorce should consider the risk of potential future tax liability on any joint returns they file.

- *Children* – Who claims the children can be a contentious issue between separated spouses. If they cannot agree, generally the one with custody for the greater part of the year is entitled to claim the child as a dependent along with all of the associated tax benefits. When determining who had custody for the greater part of the year, the IRS goes by the number of nights the child spent at each parent's home and ignores the actual hours spent there in a day.

- *Alimony* – Alimony is the term for payments made by one spouse to the other spouse for the support of the latter spouse. Under tax law prior to tax reform, the recipient of the alimony includes it as income, and the payer deducts it as an above-the-line expense, on their respective separate returns. The tax reform rule is that alimony is non-taxable to the recipient if it is received from divorce agreements entered into after December 31, 2018, or pre-existing agreements that are modified after that date to

treat alimony as non-taxable.

A payment for the support of children is not alimony. To be treated as alimony by separated spouses, the payments must be designated and required in a written separation agreement. Voluntary payments do not count as alimony.

Divorced – Once a couple is legally divorced, tax issues become clearer because each former spouse will file based upon their own income and the terms of the divorce decree related to spousal support, custody of children and division of property.

- *Filing Status* – An individual's marital status as of the last day of the year is used to determine the filing status for that year. So, if a couple is divorced during the year, they can no longer file together on a joint return for that year or future years. They must, unless remarried, either file as single or head of household (HH). To file as HH, an unmarried individual must have paid over half the cost of maintaining a household for a dependent child or dependent relative who also lived in the home for more than half the year (exception: a dependent parent need not live in their child's home for the child to qualify for HH status). If both ex-spouses meet the requirements, then both can file as head of household.

- *Children* – Normally, the divorce agreement will specify which parent is the custodial parent. Tax law specifies that the custodial parent is the one entitled to claim the child's dependency and associated tax benefits unless the custodial parent releases the dependency to the other parent in writing. The IRS provides Form 8332 for this purpose. The release can be made for one year or multiple years and can be revoked, with the revocation becoming effective in the tax year after the year the revocation is made.

Most recently, family courts have been awarding joint custody. If the parents cannot agree on who can claim a child as a tax dependent, then the IRS's tie-breaker rule will apply. This rule specifies that the one with custody the greater part of the year, measured by the number of nights spent in each parent's home, is entitled to claim the child as a dependent. The parent claiming the dependency is also eligible to take advantage of other tax benefits, such as childcare credits and higher education tuition credits.

Alimony –See alimony under "separated".

Recently Married – When a couple marries, their incomes and deductions are combined, and they must file as married individuals.

- *Filing Status* – If a couple is married on the last day of the year, they can either file a joint return combining their incomes, deductions and credits or file as married separate. Generally, filing jointly will provide the best overall tax outcome. But there may be extenuating circumstances requiring them to file as married separate. As mentioned earlier, married filing separate status is riddled with restrictions to keep married couples from taking undue advantage of the tax laws by filing separate returns. Best look before you leap.

- *Combining Income* – The tax laws include numerous provisions to restrict or limit tax benefits to higher-income taxpayers. The couple's combined incomes may well be enough that they'll encounter some of the higher income restrictions, with unpleasant tax results.

- *Affordable Care Act* – If one or both spouses acquired their insurance through a government marketplace and were receiving a premium supplement, their combined incomes may exceed the eligibility level to qualify for the supplement, which may have to be repaid.

Widowed – When one spouse of a married couple passes away, a joint return is still allowed for the year of the spouse's death. Furthermore, the widow or widower can continue to use the joint tax rates for up to two additional years, provided the surviving spouse hasn't remarried and has a dependent child living at home. This provides some relief for the survivor, who would otherwise be straddled with an unexpected tax increase while also facing the potential loss of some income.

If any of these situations are relevant to you or a family member, please call for additional details that may also apply with respect to your specific set of circumstances.

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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