What To Know About Social Security

The Social Security Administration (SSA) recently announced that there will be no increase in retiree benefits in 2016 because of the low inflation rate. Cost-of-living adjustments (COLAs), which are based on a consumer price index for urban wage-earners, have been standard fare and most retirees expect them. In fact, this is only the third time without a yearly increase in Social Security retirement benefits since COLAs were instituted in 1975. (The other two occurred in 2010 and 2011.)

It may be small consolation, but the Social Security wage base for payroll taxes also won't go up, remaining at $118,500 in 2016. This means the first $118,500 of wages you earn in 2016 is subject to a 6.2% tax (or twice that if you're self-employed). There's also a tax for Medicare of 1.45% on all earnings.

Furthermore, the SSA has announced that the limits under the "earnings test" (the amount you can earn from working without forfeiting Social Security benefits) also are unchanged.

Did this "freeze" for 2016 catch you by surprise? If so, you're not alone. People from all walks of life, including those who already have retired, often don't fully understand the rules for Social Security or are unaware of how complex the rules are. Use this quiz to test your personal knowledge of the subject:

1) The earliest age you can begin to receive Social Security retiree benefits is:

a) age 59½.
b) age 62.
c) age 65.
d) age 70.

2) The amount you will receive if you opt for early retirement may be reduced by as much as _____ for someone born in 1960 or later.

a) 5%
b) 10%
c) 20%
d) 30%

3) To get the maximum amount of Social Security benefits, you need to wait until ______ to begin receiving benefits.

a) age 59½
b) age 62
c) age 65
d) age 70

4) Spousal benefits are available to an unmarried ex-spouse if he or she was married to the beneficiary for at least:

a) 3 years.
b) 5 years.
c) 10 years.
d) 25 years.

5) Social Security retiree benefits are partially taxable if your benefits exceed ________ if you're a single tax filer and ________ if you're a joint filer.)

a) $10,000/$25,000
b) $25,000/$32,000
c) $50,000/$100,000
d) $200,000/$250,000

6) The age when a Baby Boomer born between 1943 and 1954 is able to receive full retirement benefits is:

a) age 62.
b) age 65.
c) age 66.
d) age 70.

7) For 2016, the maximum amount you're allowed to earn in the year you reach full retirement age—but before the month of your birthday—without forfeiting any benefits is:

a) $15,480.
b) $26,480.
c) $41,880
d) $55,880.

Answers: 1-b; 2-d; 3-d; 4-c; 5-b; 6-c; 7-c

Be Aware Of Your Tax Surroundings

When you trade stocks, bonds, or other capital assets, it makes sense to focus on the "bottom line"—whether you'll make or lose money, and how big your profit or loss may be. But what you're doing has tax consequences, too, and you need to be aware of what they are. And sometimes the likely tax ramifications of a transaction could influence whether you go ahead with it.

For simplicity, this discussion of tax-aware investing will look only at federal taxes, although there may be similar results on the state level.

Start with the basic premise that you can "net" any capital gains and losses you realize during the year, with losses subtracted from your gains. Any excess loss can be used to offset up to $3,000 of ordinary income, which is taxed at rates as high as 39.6%. If you have additional losses, you can carry them over to the following year.

Long-term capital gains are taxed at a maximum rate of 15%, or a top rate of 20% if you're in the top ordinary income tax bracket of 39.6%. To the extent that any of your long-term capital gains are taxed in the two lowest income tax brackets of 10% and 15%, the tax rate is 0%.

That can be especially beneficial to a tax-savvy investor. Suppose you realize a net long-term capital gain of $25,000 from a securities transaction this year. If you have $15,000 of room to spare before you cross into the 25% tax bracket for ordinary income, there will be zero tax on the first $15,000 of gain. The remaining $10,000 then will be taxed at the 15% rate for long-term capital gains. In other words, you pocket $25,000 of gain and pay a total capital gains tax of only $1,500!

Short-term capital gains, meanwhile, are taxed at ordinary income rates. This could have an impact on how long you hold securities, perhaps convincing you to delay taking a profit until it qualifies as

7 Top Tax Ideas To Use In A Declining Market

The brief 1,000-plus point plunge of the Dow Jones Industrial Average on August 24, 2015, rattled even the most optimistic investors. Whether the meltdown was part of a temporary correction or a harbinger of a bear market, it did serve as a reminder of tax moves that could be helpful when markets decline. Here are seven tax techniques you might consider:

1. Roth conversions. When the value of the assets in your IRAs falls, it may be a good time to convert part or all of the account to a Roth IRA. You'll pay income tax on the amount you convert—and when the account value drops, the amount of tax you owe also will be reduced. And paying tax now on the conversion will allow you to avoid paying it later, when you make withdrawals from a traditional IRA. Future payouts from a Roth will be tax-free if they're made during retirement and according to government rules.

2. Recharacterizations. But what if you recently converted assets in a traditional IRA to a Roth—and paid more in taxes than you would when stock prices are lower? The tax law allows you to "undo" the conversion if it suits your needs. For a conversion that took place in 2015, you have until the tax return due date for the year plus any extensions—so, until October 15, 2016—to recharacterize the IRA. It will be as if the conversion never happened.

3. Loss harvesting. If you're currently holding stocks that are worth less than you paid for them, this could be an optimal time to sell. The resulting capital losses can offset capital gains plus up to $3,000 of ordinary income this year. This could be especially beneficial if you can use the losses to offset short-term gains taxed at ordinary income rates of up to 39.6%. Short-term gains result from sales of assets you've held a year or less. If you have more than $3,000 of additional losses you can carry them over to 2016.

4. Retirement plan contributions. If the stock market is floundering, you can find some relative comfort in your qualified retirement plans. Adding to your 401(k) or other plan, perhaps a pension, or a profit-sharing plan, can help beef up your savings for retirement, regardless of the ups and downs of the market. Since there's no "gain" or "loss" until you actually take distributions, the extra amounts contributed can continue to grow on a tax-deferred basis. Along the same lines, you might benefit from contributions to an IRA (traditional or Roth) to supplement the qualified plans.

5. Gifts of securities. Assuming you don't need the capital losses this year, you might decide to give depressed assets to family members. Under the annual gift tax exclusion, you can give away securities valued up to $14,000 per recipient ($28,000 for a joint gift by a married couple) without any gift tax consequences. That will reduce the size of your taxable estate. And giving away stock when the price is down lets you transfer more shares—whose prices may recover later.

6. Funding a trust. This strategy, too, lets you take advantage of lower asset prices. A grantor retained annuity trust (GRAT) can help you transfer wealth, often a business interest, to younger beneficiaries. With a GRAT, you transfer the assets into the trust but still can take annual annuity payments for a specified number of years. When the term of the GRAT ends, the remainder is distributed to the beneficiaries. And if the assets you transfer are worth less than they had been, any gift tax liability will be reduced.

7. Using an alternative date for the valuation of inherited assets. This postmortem strategy could provide valuable savings for your family. Normally, the value of the assets in your estate for estate tax purposes is established on the day you die. However, an executor can elect to calculate the value of your estate six months after your death. If stocks or other assets have lost value, any estate tax paid by your heirs will be lower, too. Keep in mind, though, that alternate valuation is an all-or-nothing proposition. It can't be used for certain assets in the estate and not for others.

These and other tax moves could help you reduce the impact of a market decline and perhaps turn it to your advantage. ●

a long-term gain. Upper-income investors also may have to pay a 3.8% surtax on some investment income.

"Qualified" dividends from U.S. companies benefit from the same preferential tax rates as long-term capital gains. To qualify, you must have held the stock for more than 60 days during the 121-day period that begins 60 days before the ex-dividend date (that is, the first date following the declaration of a dividend on which the buyer of a stock is not entitled to receive the next dividend payment).

Other types of investments, too, may be eligible for favorable tax treatment. For instance, while payouts from employer-sponsored retirement plans and IRAs are taxed as ordinary income, qualified distributions from Roth IRAs are 100% tax-free after five years. The tax law includes other statutory benefits that may apply to real estate, annuities, master limited partnerships, and life insurance.

Tax aspects are a critical part of your investment decisions. If you can learn how they work and what the potential tax impact is, you may be able to keep more of your investing profits. We can help you determine how to proceed. ●