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The Bipartisan Budget Act of 2015 Eliminates Some Social Security Planning Opportunities That Were Not Worth Using in the First Place: The Budget Act will increase spending and raise the debt ceiling in order to fund the federal government through 2017. Among its provisions are some changes to collecting Social Security benefits. In particular, two planning techniques that have been promoted in recent years will be eliminated effective May 2, 2016. These are referred to as "file and suspend" and "restricted application."

File and suspend means that the higher earning spouse (e.g., the husband) claims Social Security Benefits at his normal retirement age of 66. The lower earning spouse (the wife) will claim a 50% spousal benefit. The husband suspends his benefit with the intention of allowing it to grow at a compounding 8% rate of growth until he turns age 70. This device permits both the growth of benefits to age 70 **and** the chance for the wife to claim some benefits along the way.

A restricted application means that the lower earning spouse (e.g., the wife) applies for benefits based on her own work record and the higher earning spouse (the husband) who is at his full retirement age claims spousal benefits on his wife's record. He then waits until age 70 to claim his increasing benefits at which point he switches over.

The new Budget Act will end these provisions. If you are at your full retirement age and are interested in them, you have until May 2. If you have already set this plan in place, then you will be grandfathered. Some advisors who have been recommending these approaches are up in arms with the law change. They've made big investments in software programs that calculate how to maximize benefits, and these techniques have worked well under those programs. However, those programs suffer the fatal flaw -- they ignore investment growth on benefits that are paid out at or before one's normal retirement age.

Why We Think We're Better Off to Start Collecting Social Security's Smaller Monthly Payments Earlier Than Its Larger Monthly Payments Later: On the issue of when to start collecting social security benefits, we've long been proponents of starting Social Security benefits at the earliest date that benefits are not scaled back if we continue

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to work. The earliest age we can start collecting is age 62, but if we continue working past that age, then our social security benefits will be severely reduced. For most people considering this issue, their normal retirement age ("NRA") is 66. Once we reach NRA, Social Security benefits will not be reduced if we keep working.

As of 2016, the largest possible monthly benefit for a person retiring at his normal retirement age of 66 is $2,639. If we delay the starting date until age 70, the benefit rises by 8% per year or (32% total) to $3,590. If we start collecting early at 62, the benefits are reduced by 25% to $1,979. Our calculations confirm what we've always believed – that we're better off collecting the smaller benefit at our NRA (age 66) instead of waiting for our larger benefit at 70. Our assumptions are: (1) that we will not need the money to live on; and (2) that the payments will be invested at assumed rates of 8%, 6% and 4%.

(*Of course, if we needed the money to live on or if our life expectancy was short, that would also dictate taking the money sooner.*) We calculated what the monthly payments, invested at these rates would grow to at ages 85, 90, 95 and 100. At each projected age, the extra four years of smaller monthly payments starting at age 66 gave the greater amount. The only exceptions are that the break-even points come at around age 95 (with 6% growth) and age 90 (with 4%).

We see articles on this topic where the authors say that if you have a long life expectancy, then you should delay benefits until age 70. These articles ignore the concept of the "float" or our ability to earn income on the invested benefit payments. Second, basing this decision on the prospect of a long life expectancy makes us recall the old Yiddish proverb of "Man plans, and God laughs."

Investing Monthly Payments at 8%:	**At Age 85**	**At Age 90**	**At Age 95**	**At Age 100**
$2,639 starting at age 66 grows to:	$1,406,959	$2,287,077	$3,601,297	$5,559,283
$3,590 starting at age 70 grows to:	$1,242,277	$2,114,583	$3,414,185	$5,350,390
Investing Monthly Payments at 6%:	**At Age 85**	**At Age 90**	**At Age 95**	**At Age 100**
$2,639 starting at age 66 grows to:	$1,117,827	$1,691,905	$2,466,249	$3,510,723
$3,590 starting at age 70 grows to:	$1,044,039	$1,658,727	$2,487,848	$3,606,209
Investing Monthly Payments at 4%:	**At Age 85**	**At Age 90**	**At Age 95**	**At Age 100**
$2,639 starting at age 66 grows to:	$ 899,035	$1,272,682	$1,728,903	$2,285,948
$3,590 starting at age 70 grows to:	$ 883,465	$1,316,721	$1,845,725	$2,491,637

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Which States Give the Best Tax Breaks for Retirement Income? Qualified (i.e., not early) distributions from retirement plans and IRAs are tax-free in Mississippi. Georgia exempts $65,000 worth of IRA distributions as well as otherwise taxable investment income for those age 65 and older. Seven states have no income tax at all - Alaska, Florida, Nevada, South Dakota, Washington and Wyoming. Kiplinger's has a useful state-by-state guide showing which states are and aren't friendly to retirees: www.kiplinger.com/letterlinks/retireemap.

Don't Forget the $1,500 "Safe Harbor" Home Office Deduction: In 2013, the IRS implemented a home office deduction safe harbor of $5 multiplied by size of the home office up to 300 square feet. In other words, if you meet the requirements for a home office under Tax Code Section 280A, there is now an automatic deduction of up to $1,500. Some Newsletter readers and seminar attendees are claiming the home office deduction, but the numbers are small. One reason is that there is a nagging, if unfounded, concern that it will lead to an IRS audit.

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Home office expenses including real estate taxes, mortgage interest, utilities, home insurance, depreciation, exterior painting, roof repair, security system, etc. are deductible in the ratio of the square footage of the home office to the square footage of the home. The first requirement is that the home office is used regularly and exclusively as a principal place of business. "Exclusively" means that the home office is not used for anything else. The kitchen or the family room won't qualify. A basement or spare bedroom could. The second requirement is that the home office is used for "substantial" administrative functions which would include things like scheduling, billings and collections, etc. The exclusivity requirement will be the easier test to satisfy. The second test will be tougher. The business activities most doctors perform from home, such as check office email, answer mail, run accounting reports, etc. would likely not rise to the level of "substantial" administration.

In any event, if you feel you can make a compelling case of the home office deduction and do not want to spend the time itemizing all your reimbursable homeowner expenses, you can claim the $1,500 safe harbor. If you practice through a corporation, you will take this as a reimbursable expense, deductible to the corporation and tax-free to you. If you are a Schedule C taxpayer, you will claim the deduction on IRS Form 8829. In a 50% combined federal and state income tax bracket, a $1,500 deduction saves $750 in taxes.

The $1,500 safe harbor is convenient but modest. It avoids the need for recordkeeping, and you can elect in or out of it each year. In most cases, deducting the actual expenses will yield a far bigger deduction.

If You Understand Annuity Payout Rates You'll Understand Why Annuities Should be Avoided: If the insurance salesman quotes you a 5% return on an immediate annuity, don't think that your money is earning 5%. For example, if you pay the insurance company $200 to buy the annuity, the insurance company will pay you $1 every month for the rest of your life. That's the 5% "return" which is mostly the return of your money. How many months will you have to live for the annuity to be a good deal? If you said 200, then you don't understand the concept of the float. The insurance has all of your money up front to invest and then slowly pays it back to you over time.

For example, assume the annuity costs $200, and you're paid $1/month for life. In the first year, the average balance in the account is $194 (by mid-year, $6 will have been paid and $6 remains to be paid). If the insurance company can invest the $194 and earn a 5% rate of return, it will earn $9.70 in investment growth. It will pay out a total of $12 per year, and go into year two with a starting balance of $197.70. At this rate, you could live to 150 and the insurance company won't lose. When you do pass away, the insurance company, not your heirs, keeps what remains of the investment.

Annuities Address the Primary Fear of Retirees - Running Out of Money - the Problem is that Annuitants Receive Too Little Back for What They Are Paying Up Front: If you like the concept of the annuity, don't buy it from the insurance agent. Set up your own. Put the money you would have used to buy the annuity into a basket made up largely of corporate bonds (with some government bonds and blue chip stocks added in). Then set up a monthly payout rate based on the insurance company's promised benefit and increase it by 25%. In the above example, for every $200 invested, you'd withdraw $1.25 each month. You will not outlive your money, and on your death, your heirs inherit the rest.

Country Club Dues: Dues and fees paid to social, athletic or country clubs are deductible only if they are directly related to the active conduct of the taxpayer's business - which is too big a stretch for readers of this Newsletter. This does not, however, preclude deducting specific expenses incurred in entertainment or promotion for business purposes.

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Claims Made "Tail Policy": Any doctor who has a claims made malpractice insurance policy should obviously buy a "tail" policy from the company when he or she retires. No one should ever buy a claims made policy unless the policy guarantees the opportunity to buy a tail policy at retirement or termination of the policy. At retirement make sure the tail policy is purchased (and paid for) prior to your actual date of retirement as this will avoid any question of deducting a business expense after retirement.

Seller's Name On The Practice: If the contract for the sale of a doctor's practice permits the buyer to use the seller's name for a period of time, the contract should state that the buyer indemnifies the seller for any liabilities or expenses incurred by the seller arising from the use of the name.

Year-End Summary of the Required Minimum Distribution (RMD) Rules for Plans and IRAs: The rules for distributions from plans and IRAs vary slightly, but distributions are required starting the year in which we turn 70-1/2. The annual RMD is determined by dividing the prior year-end account balance by a life expectancy factor. The factor comes from an IRS table that your accountant can give you. If a participant has benefits in more than one qualified plan, the RMD must be calculated separately for each plan and distributions must be taken from each plan. If a participant has multiple sub-accounts within a single plan (e.g., 401(k), safe harbor, and profit sharing), then these sub-accounts are aggregated together to form a single account. This may create a favorable result, because the participant may have some after-tax contributions in his or her 401(k) account which can be distributed first.

However, for IRAs, we can total up the value of all of the IRAs and then select which account (or accounts) we'd like to take the distribution from. All IRAs count for this rule and can be aggregated together, including contributory, rollover, SIMPLE and SEP. The exceptions are Roth IRAs (which currently are not subject to mandatory distributions) and inherited IRAs (which are subject to a different distribution schedule).

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New Tax Related Numbers For 2016: Here are some numbers that tend to change every year or every few years due to inflation in the economy. Most of the numbers remain the same for 2016 due to low inflation.

	2016	2015
Annual Retirement Plan Participant Compensation Limit	$265,000	$265,000
Annual Defined Contrib. Plan Participant Dollar Limit	$53,000	$53,000
Annual Defined Contrib. Plan %-Of-Individual Pay Limit	100%	100%
Annual Prof. Sharing %-Of-Total-Participant-Pay Limit	25%	25%
Annual Defined Benefit Pension Plan Benefit Limit	$210,000	$210,000
401(k) Employee Elective Deferral Limit	$18,000	$18,000
401(k) Catch-Up Contrib. for Those Age 50 & Over	$6,000	$6,000
SIMPLE Plan Employee Elective Deferral Limit	$12,500	$12,500
SIMPLE Plan Catch-Up Contrib. for Those Age 50 & Over	$3,000	$3,000
IRA (Roth & Traditional) Contribution Limit	$5,500	$5,500
IRA (Both Types) Catch-Up Contrib. (Age 50 & Over)	$1,000	$1,000
HSA Annual Contrib. Limit (Individual/Family)	$3,350/$6,750	$3,350/$6,650
HSA Catch-Up Contrib. for Those Age 55 & Over	$1,000	$1,000
Federal Lifetime Estate and Gift Tax Exclusion	$5.45M	$5.43M
Federal Lifetime Gift Tax Exclusion	$5.45M	$5.43M
Annual Gift Tax Exclusion for Per-Person Gifts	$14,000	$14,000
Section 179 First-Year Depreciation Limit (unless Congress acts)	$25,000	$25,000
Social Security Taxable Wage Base	$118,500	$118,500
Personal and Dependent Exemption	$4,050	$4,000

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