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Don't Be Victimized By These 10 Common Scams

Scams of all varieties continue to bilk unsuspecting victims out of billions of dollars each year. In particular, older Americans are being targeted, especially those who have been recently widowed. With that in mind, here are 10 scams to watch out for:

1. IRS imposters. This scam proliferates during tax-return season. A caller will say he or she is an IRS agent and claim you owe back taxes. Then the caller threatens you with stiff penalties or a lawsuit—and even arrest—if you don't wire the money immediately. But the IRS doesn't call debtors without sending a notice via U.S. mail first. To be on the safe side, if you get such a call, check with the IRS at 1-800-829-1040 to check the caller's credentials.

2. Tech support. Typically, you receive a phone call purporting to be from Microsoft or another software company, and the caller says a virus has invaded your computer. Then you're asked to provide access to your computer and the hacker installs malware that steals personal information. These software companies don't make unsolicited phone calls, so hang up immediately.

3. Robo-calls. Are you a victim of those annoying automatic telephone calls? Although the call itself isn't an attempt at ID theft, it helps the crooks build a "go-to list" for future phone scams. Use your caller ID to screen calls and don't answer if someone is calling from a number you don't know.

4. Charitable solicitations. Many legitimate charities call on the phone so it's hard to weed out the real ones from the fakes. Investigate any charity before handing over cash or making a credit or debit card contribution by mail or online. If the charity is for real, the caller won't hesitate to provide additional information. Check out charities at www.charitynavigator.org.

5. Credit cards. It's not surprising that scam artists are working an angle as credit card companies change their cards from magnetic strips to chips. Someone impersonating a credit card company employee may request information or ask you to click on a link to update your status. But credit card companies don't operate this way. If you have any doubts, call the company directly.

6. Dating websites. Initially, scams were based on prying money or sensitive data out of single people who recently have entered the dating scene. But now it has mushroomed into more sophisticated cons aimed at newcomers to religion-based sites. Because you're "dating" someone from your faith, you may be more likely to let your guard down and give access to money.

7. Widows and widowers. A typical trick of con artists is to prey on your emotions. Of course, elderly individuals are especially vulnerable

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MLINY042916233

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Lock In Early Capital Losses In '16

The early bird gets the worm in tax planning, too. Take the case of the savvy investor who usually waits until the end of the year to harvest capital losses from securities transactions. Although that tried-and-true strategy still makes sense, you often will benefit from an earlier start. In fact, you might look to sell off some losers in your portfolio before the year even hits the midway point.

Start with this basic tax premise: Any capital losses you realize when you sell stocks or other securities or capital assets are used first to offset capital gains you realize during the year. If your losses add up to more than your gains, you then can use the extra amount to offset up to $3,000 of highly taxed ordinary income and carry over any that's left to the next year. With these opportunities beckoning, investors often search for losses to provide these tax benefits.

At the same time, if you have net long-term capital gains for the year (involving transactions of assets you've owned for longer than a year), the maximum tax rate is only 15%, or 20% if you're in the top ordinary income tax bracket. Even better, you may benefit from a 0% rate on long-term gains for income in the two lowest ordinary income tax brackets.

If you're heading into the home stretch of the year and you already have capital gains, you might sell something at a loss and use that to offset those gains, which will be tax-free up to the amount of the losses. This is a particularly attractive strategy if you have short-term gains that otherwise would be taxed at ordinary income rates.

But why wait until the end of the year? There's no reason to sit back and wait for things to unfold if you're holding securities you want to unload anyway. You may as well take the losses during the first half of the year. Then you can capture tax-free capital gains later on.

Example: In the first quarter of 2016, you acquire a stock that appears poised to take off this year. At the same time, you own two stocks showing losses of $6,500 and $7,500, respectively.

Instead of waiting until year-end, you sell the two losing stocks on July 1 and lock in $14,000 of losses. Say that you're able to sell the other stock at a gain of $12,000 in late December. In this case, your capital gain is completely tax-free and you can use the additional $2,000 loss to offset ordinary income. (Note: These figures are purely hypothetical and not indicative of any particular securities.)

What's more, taking losses early secures your position in the event you are unexpectedly incapacitated or pass away. Again, the early bird catches the worm.

Of course, taxes aren't the only consideration in investment planning, but it makes sense to factor tax consequences into your decisions. ●

Do Roth IRA Math Before Converting

The Roth IRA conversion has been one of the most popular retirement planning techniques in recent years and there's nothing to indicate that this trend will change. The main attraction is that the money you take from a Roth after the conversion is generally free from income tax and you don't have to dilute your nest egg with required minimum distributions (RMDs) as you do with traditional IRAs. For many retirement-savers, it's a good deal.

But the benefits of Roth IRAs come at a price: When you convert funds in a traditional IRA to a Roth, you must pay tax on the conversion amount, just like you would with a regular distribution from an IRA. The trick is to minimize the tax liability when you pull off this maneuver.

Normally, withdrawals from a traditional IRA are fully taxable at ordinary income tax rates, currently reaching as high as 39.6%. In addition, these distributions increase your exposure to the 3.8% surtax on net investment income, as well as other potential adverse tax consequences such as the personal exemption phaseout (PEP). Furthermore, you must begin taking RMDs from your traditional IRA accounts after you reach age 70½—no exceptions.

Once you convert to a Roth, "qualified" distributions after five years are completely exempt from income tax. Qualified distributions, for this purpose, include withdrawals you take after age 59½, that are made because of death or disability, or are used for a first-time home purchase (up to a lifetime limit of $10,000). And you don't have to take RMDs during your lifetime no matter how long you live.

You may be able to contribute directly to a Roth IRA, but that option is phased out for upper-income taxpayers. A conversion may be your only viable route.

If you're thinking about a Roth

What To Do About That Old 401(k) Account

If you have participated in a 401(k) plan where you work, you probably made investment choices when you signed up for the plan and you may have stuck with those investments with few modifications, watching as your account grew, with some inevitable setbacks, over the years. But now you're getting ready to leave the workforce or you're changing jobs. That raises this question: What should you do with that 401(k) at your old job?

Answer: It depends on several variables as well as your personal needs and preferences. However, depending on your circumstances, there are generally four options:

Option 1. Keep the status quo. Assuming the plan permits it (and many do), you can leave your money where it is, even if you stop working for the company. The plan administrator is legally required to observe the same requirements with regard to your account as it does for participants who are current employees. You, meanwhile, are still subject to the basic tax rules regarding distributions and penalties. For instance, you can't take penalty-free withdrawals from the plan unless you qualify under a tax law exception, such as for payouts to someone who is at least 55 years old and has "separated from service." Also, you're generally required to begin taking distributions once you reach age 70½. But if you choose this option and you haven't adjusted your investment mix in a while, you probably should review the portfolio to make sure it still meets your objectives.

Option 2. Roll over the assets into a new 401(k). If you're leaving your old job for a new one, you generally can roll over the money in your old 401(k) plan into a 401(k) or another plan provided by your new employer. It can be convenient to consolidate all of your 401(k) assets in one place, or you might prefer the investment options offered under the new plan. In any event, you won't face any income tax liability for making the transfer as long as the rollover is completed within 60 days of the job change. All of the assets you move still will be subject to the usual rules for distributions and penalties. However, if you continue working for this employer past age 70½ and you don't own 5% or more of the business, you can postpone mandatory distributions until you actually retire.

Option 3. Roll the assets into an IRA. As when you make a rollover to another employer's retirement plan, you can choose to roll over assets tax-free to a traditional IRA, even if you're retiring for good. The rollover must be completed within the 60-day deadline. To avoid having income tax withheld (which you could recoup when you file your tax return), you can arrange a trustee-to-trustee transfer so that the money never touches your hands. You might decide to roll over the assets into a Roth IRA, rather than a traditional IRA. With a Roth, you'll owe income tax on the amount you convert, but then you'll be in line for future tax-free distributions. And with a Roth IRA, you're not required to take mandatory distributions after age 70½ as you are with a traditional IRA.

Option 4. Cash in your chips. Of course, the money that has accumulated in your 401(k) all of these years is yours to keep. If you really need it now, you can simply take the money, whether you're retiring or switching to another job. But cashing in your 401(k) account when you leave your job means you'll have to pay income tax now on the amount representing pre-tax contributions and earnings. In addition, if you're under age 59½, you'll generally owe a 10% penalty tax on the taxable amount, unless a special tax law exception applies. Finally, you will lose the ability to continue to generate tax-deferred earnings within the cozy confines of a 401(k), traditional or Roth IRA, or other tax-advantaged retirement plan. And you'll have less in your nest egg when you do retire.

What's the best option? There is no definitive right or wrong answer. If you urgently need the money, you may be forced to cash in the account now. Otherwise, you may want to stick with one of the other options, or perhaps a combination of a couple of them. We would be glad to discuss the alternatives and help you formulate a plan that suits your situation. ●

conversion this year, you might consider limiting the amount you convert to the maximum you can add to your income without moving into a higher tax bracket. For example, if you expect to be in the 25% bracket and have another $50,000 to spare before crossing into the 28% bracket, you could take this opportunity to convert $50,000 from your traditional IRA to a Roth. Not only is that amount below the thresholds for the 3.8% surtax and PEP, the tax rate is limited to 25%. You then could repeat this strategy over multiple years to keep your tax liability at a reasonable level.

Finally, you're holding another tax card up your sleeve: If it suits your needs, you might decide to "recharacterize" part of the converted amount back into a traditional IRA. This could be a good idea if the value of the account declines significantly after the conversion. You have until the tax return due date for the year of the conversion plus extensions to recharacterize, giving you plenty of time to make an informed decision. ●

When To Use An Installment Sale

Do you own commercial or investment real estate you're planning to sell? If the property has appreciated in value since you bought it, and you've been writing off your initial cost through depreciation deductions, you could owe a hefty tax on the transaction. What's more, you might not be able to find a buyer that can come up with all of the cash—at least not at your asking price.

You may be able, however, to kill two birds with one stone. An installment sale of commercial or investment real estate can let you defer the tax over several years, reducing the overall tax bite. In addition, the buyer can spread out the payments. There are no special conditions; the tax law specifies only that the payments must be made over two or more years.

Except for the effect of having the sale happen gradually, the basic tax rules for real estate transactions continue to apply. If you make a profit, it will be taxed as a capital gain. If you've held the property for more than one year, your long-term capital gain will be taxed at a maximum rate of 15%, or 20% if you're in the top ordinary income tax bracket of 39.6%. You also may be liable for the 3.8% surtax on net investment income.

You generally will owe tax on a portion of your gain in the year of the sale and the remainder in the years during which you receive the installment payments. The taxable portion is based on something called the "gross profit ratio"—your gross profit from the real estate sale divided by the price. Suppose that you sell a commercial building, your gain is $1 million, and the gross profit ratio is 60%. If you receive $250,000 a year, you are taxed on $150,000 (60% of $250,000) of the proceeds annually. Assuming a 20% long-term capital gain tax rate (and excluding any net investment income surtax), your tax each year on the installment sale is $30,000 (20% of $150,000).

Any depreciation you claim on the property must be recaptured as ordinary income to the extent it exceeds the amount allowed under the straight-line depreciation method. However, spreading out the tax over a number of years will take greater advantage of the 15% tax rate on long-term capital gain.

Finally, there's one other potential tax pitfall. If the sale price of your property (other than farm or personal property) exceeds $150,000, you'll have to pay interest on the tax that is deferred to the extent that your outstanding installment obligations exceed $5 million.

While installment sale treatment on your tax return is automatic, you can opt out if that suits your purposes—for example, if your income was otherwise low for the year. In that case, the entire gain is taxable in the year of the sale. But these rules are complicated, so be sure to get expert tax advice about your situation. ●

10 Common Scams

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after the death of a loved one. It's not unusual for a criminal to pretend to be a banker or other professional to coerce you to hand over funds. Rely on reputable financial planners you know and trust and close family members to steer you in the right direction.

8. Medical ID theft. ID theft often is associated with financial information, but loss of medical information can be just as damaging. Just imagine someone running up costs for expensive drugs, doctor visits, and even surgery under your name. What's more, unlike theft of credit card data, you're often held liable for these purchases. Don't volunteer your particulars (for example, Social Security and insurance account numbers) unless you're certain it's for a valid reason. Check with your insurer about any charges you don't understand.

9. Gift card vouchers. If you're targeted for this scam, you receive an unsolicited email offering you a free gift card from a well-known retailer or restaurant if you click on a link. It can look legitimate—the scammers will go to great lengths to replicate logos and corporate designs—but often it isn't. Clicking on the link will install malware on your computer that can siphon away personal data. No matter how appealing an offer is, don't click on links you have not verified.

10. Counterfeit apps. Finally, in a highly publicized incident, Apple developed some applications that were found to contain vicious malware that spied on consumers. While Apple believes it has purged these malicious apps, similar occurrences could lead to loss of personal data. Try to use only well-known apps and consider reading reviews before purchasing them.

These are just 10 of the scams currently making the rounds. Be on your guard and be skeptical of anything that doesn't seem just right. ●

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