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Client Conversations – Winter 2019

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Q: Someone I know got scammed by a thief posing as an IRS agent. What can I do to protect myself against that kind of scam?

A: You're right to be concerned about scammers with fraudulent intentions. In fact, in 2018, the IRS noted a 60 percent increase in email schemes that seek to steal money or tax data from unsuspecting victims. More than 2,000 tax-related scam incidents were reported to the Internal Revenue Service from January through October, compared to approximately 1,200 incidents in all of 2017, according to a recent *Forbes* article.

Typically, these scams are conducted via phone, email, texts, and through websites that appear legitimate but contain phony login pages. It could be a call on your home phone claiming to be from the IRS or IRS tax partners in the community, an email asking you to pay back taxes, or someone posing as your company's payroll provider asking you for W-2 information.

In a recent malware scam, thieves sent emails with subject lines like "IRS Important Notice" and "IRS Taxpayer Notice." Scammers demanded payment or threatened to seize recipients' tax refund.

The more you know about how to protect yourself, the better chance you have to not be a victim. Here are a few ways you can guard yourself from tax-related scams.

Recognize what the IRS does not do. The IRS does not initiate contact requesting personal or financial information by email or other electronic communication, such as text messages or social media, according to the *IRS's Taxpayer Guide to Identity Theft*. Also, the IRS won't demand credit- or debitcard numbers over the phone or threaten to have you arrested by local police.

Learn to spot phishing emails and other scams. Phishing is an attempt to fool you into revealing personal or confidential information the scammer can use illicitly. Phishing often comes in the form of an unsolicited email or a fake website that poses as a legitimate site to get you to disclose your personal or financial information. Do not click on links or download attachments from unknown or suspicious emails. Keep a radar up for thieves posing as legitimate organizations such as your bank, credit card companies, and even the IRS.

Be careful with public Wi-Fi. Public Wi-Fi access might be convenient, but you should understand that public Wi-Fi connections are unsecured, and when you use one, your data is vulnerable to others using the same public network. It's best to avoid websites that could expose your passwords or financial information to cyberthieves on public Wi-Fi connections. If you have another option, like using cellular data, consider that instead.

Use your common sense. Always use security software with firewall and antivirus protections. Use strong passwords. Don't routinely carry Social Security cards, and make sure your tax records are secure. Lastly, verify that you're on legitimate websites before sharing your data; if you must access a particular site, avoid any links that you're not sure about, and navigate directly to the site instead.

Q: How will changes from the Tax Cuts and Jobs Act affect me when I file my 2018 income taxes?

A: The net result of the Tax Cuts and Jobs Act passed in December 2017 is a simplification of the tax code for many Americans. And when you file your 2018 income taxes this April, you'll primarily feel the difference through changes to the deductions that are available. Many tax deductions were kept intact, but others were modified, and some were eliminated. The result should be positive for most taxpayers but may be a little confusing.

The biggest overall change for most individual taxpayers will be the increase in the standard deduction, which will nearly double from $6,350 to $12,000 for single filers and $12,700 to $24,000 for married individuals. As a result, more than 90 percent of tax filers are expected to utilize the standard deduction rather than itemizing their deductions—up from 72 percent in past years.

The additional standard deduction for the elderly remains available as well. In 2017, the tax rules allowed individual tax filers over age 65 to claim an additional standard deduction of $1,550, and married couples over the age of 65 could increase their standard deduction by $2,500. The new rules increase this higher standard deduction for people over age 65 to $1,600 per individual and $2,600 per couple.

Offsetting the increase in the standard deduction are several changes for taxpayers who have itemized deductions in the past.

- *State and local taxes.* The cap on the deductibility of state and local income or sales taxes—known as SALT—may be the most notable change after the standard deduction increase. The Tax Cuts and Jobs Act limits the deductibility of SALT to $10,000. That means that taxpayers in high-tax states like New York, New Jersey, Massachusetts, and California may not be able to deduct all of their state and local taxes.
- *Mortgage interest.* Mortgage interest remains deductible but only on indebtedness up to $750,000—down from $1 million—and interest paid on home equity debt may only be deducted if the money is spent on acquiring, updating, or building a primary or secondary residence.
- *Miscellaneous expenses.* The tax code eliminated the deductibility of expenses such as tax

preparation, investment management fees, and unreimbursed work expenses that had been deductible in excess of 2 percent of adjusted gross income (AGI).

Meanwhile, several deductions became friendlier, including cash contributions to public charities, which are now deductible up to 60 percent of AGI, and medical expenses, which are now deductible if they exceed 7.5 percent of your AGI.

Despite the elimination or reduction of most deductions, most taxpayers will come out ahead due to the higher standard deduction, tax rate cuts, and other changes. That said, the changes to the U.S. tax system resulting from the Tax Cuts and Jobs Act are too sweeping to fully capture in a short article like this. If you have questions or if you need help, you should seek the advice of a skilled tax advisor.