



Precision Monthly

Precision Financial Services, Inc.

Michael Babyak, Jr. II
President
350 US Highway 46
Mine Hill, NJ 07803
973-927-6300
communications@pfs-inc.com
www.precisionfinancial.com

As we are in the midst of tax preparation season, please keep in mind that it is common in the industry to have custodians send amended tax forms throughout February. It is advisable to not file your tax return immediately upon receiving the initial documents as there is a chance an amended version might be generated.

February 2019

Tax Scams to Watch Out For

Know Your Mutual Funds

How can you lower the costs of owning a vehicle?

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Tax Strategies for 2019

Below we highlight a few strategies which may allow you to minimize taxes due in 2020. Before proceeding with any of the approaches below, please speak to your tax professionals.

Annual Gifting – Although gifting to family members is not deductible, you can take advantage of the annual gifting rule, which allows gifts that are free of the federal gift tax. Every U.S. citizen or resident alien can give away up to \$15,000 per person per year. Additionally, a husband and wife can elect to divide gifts or jointly gift up to \$30,000 per person per year. This tactic is useful for parents or grandparents who want to help fund 529 plans. Gifts of \$15,000 can be made annually to the 529 plan, or a plan can be “front-loaded,” with an individual gifting \$75,000 or \$150,000 per couple. If you choose the maximum front-loading option, you will not be able to make further tax-free gifts to that 529 plan or that beneficiary for the following five years.

Estate and Gift Tax Law – Consider taking advantage of the federal \$11.4M per person lifetime gift tax exclusion. You can move assets out of your estate that will continue to grow free of estate and gift tax.

Qualified Options – If you were granted incentive stock options (ISO), when you exercise these options the bargain element (*market value - strike price*) will be considered a preference item and tallied for AMT purposes. You may want to delay exercising if your belief is that the company could have a slump in its stock price. Conversely, if you already exercised these options yet have sold no stock, make sure you allow the required time period to elapse (two years from grant, one year from exercise) before selling. You will then most likely pay a more favorable capital gains rate, rather than a higher income tax rate.

Maximize Pre-Tax Contributions – Take a look at your 401(k) contributions and determine whether you can contribute more. The 2019 maximum allowable contribution is \$19,000, with an additional catch-up contribution of \$6,000 for those 50 and older. Additionally, for those who qualify, contributions may be made to profit-sharing or SEP plans. These contributions cannot exceed the lesser of \$56,000 or 25% of your compensation (20% if self-employed).

Harvest Investment Losses – Investment losses can add value to your annual financial planning. Investment losses can reduce your tax liability by offsetting capital gains, which reduces your taxable income. Excess capital losses can also be carried forward to assist offsetting gains in future years. However, be aware that some states limit carryovers of capital losses. Sharing your finalized tax return with your advisor will allow for more efficient planning in 2019.

Health Saving Account (HSA) – If eligible to contribute into an HSA, the 2019 maximum allowable contribution for individuals is \$3,500 and for families \$7,000. There is also a catch-up contribution of \$1,000 for those 55 and older if you are not enrolled in Medicare. This type of account is extremely beneficial in light of projected higher retirement health care costs.

Charitable Gifting – Begin to consider organizations you may want to donate to and support. Donations made by December 31 will offset your 2019 tax bill. You can leverage the value of the donation by donating an appreciated security held more than one year.

Pre-pay Mortgage Payments – Start planning to prepay next January's mortgage in December. This can be a quick way for you to increase itemized deductions in the present tax year. Just remember that in the following year you will have only eleven months' worth of deductions— unless you opt to pay next January's mortgage early again.





Tax Scams to Watch Out For



It is important to remember that the IRS will never initiate contact with you by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media.

While tax scams are especially prevalent during tax season, they can take place any time during the year. As a result, it's in your best interest to always be vigilant so you don't end up becoming the victim of a fraudulent tax scheme.

Here are some of the more common scams to watch out for.

Phishing

Phishing scams usually involve unsolicited emails or fake websites that pose as legitimate IRS sites to convince you to provide personal or financial information. Once scam artists obtain this information, they use it to commit identity or financial theft.

It is important to remember that the IRS will never initiate contact with you by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media. If you get an email claiming to be from the IRS, don't respond or click any of the links; instead forward it to phishing@irs.gov.

Phone scams

Beware of callers claiming that they're from the IRS. They may be scam artists trying to steal your money or identity. This type of scam typically involves a call from someone claiming you owe money to the IRS or that you're entitled to a large refund. The calls may also show up as coming from the IRS on your Caller ID, be accompanied by fake emails that appear to be from the IRS, or involve follow-up calls from individuals saying they are from law enforcement. Sometimes these callers may threaten you with arrest, license revocation, or even deportation.

If you think you might owe back taxes, contact the IRS for assistance at irs.gov. If you don't owe taxes and believe you have been the target of a phone scam, you should contact the [Treasury Inspector General](http://www.treasury.gov) and the [Federal Trade Commission](http://www.ftc.gov) to report the incident.

Tax return preparer fraud

During tax season, some individuals and scam artists pose as legitimate tax preparers, often promising unreasonably large or inflated refunds. They try to take advantage of unsuspecting taxpayers by committing refund fraud or identity theft. It is important to choose a tax preparer carefully, since you are legally responsible for what's on your return, even if it's prepared by someone else.

A legitimate tax preparer will generally ask for proof of your income and eligibility for credits and deductions, sign the return as the preparer, enter the Preparer Tax Identification Number, and provide you with a copy of your return.

Fake charities

Scam artists sometimes pose as a charitable organization in order to solicit donations from unsuspecting donors. Be wary of charities with names that are similar to more familiar or nationally known organizations, or that suddenly appear after a national disaster or tragedy. Before donating to a charity, make sure that it is legitimate. There are tools at irs.gov to assist you in checking out the status of a charitable organization, or you can visit charitynavigator.org to find more information about a charity.

Tax-related identity theft

Tax-related identity theft occurs when someone uses your Social Security number to claim a fraudulent tax refund. You may not even realize you've been the victim of identity theft until you file your tax return and discover that a return has already been filed using your Social Security number. Or the IRS may send you a letter indicating it has identified a suspicious return using your Social Security number. If you believe you have been the victim of tax-related identity theft, you should contact the IRS Identity Protection Specialized Unit at 800-908-4490 as soon as possible.

Stay one step ahead

The best way to avoid becoming the victim of a tax scam is to stay one step ahead of the scam artists. Consider taking the following precautions to keep your personal and financial information private:

- Maintain strong passwords
- Consider using two-step authentication
- Keep an eye out for emails containing links or asking for personal information
- Avoid scam websites
- Don't answer calls when you don't recognize the phone number

Finally, if you are ever unsure whether you are the victim of a scam, remember to trust your instincts. If something sounds questionable or too good to be true, it probably is.



Know Your Mutual Funds



At the end of October 2018, there were 7,866 U.S. mutual funds spread across the following broad categories:

Domestic equity (3,144)

World equity (1,499)

Hybrid (709)

Taxable bond (1,573)

Municipal bond (560)

Taxable money market (297)

Tax-exempt money market (84)

Source: Investment Company Institute, 2018

Almost 100 million Americans, representing about 44% of U.S. households, owned mutual funds in 2018. Saving for retirement was the primary goal for 73% of investors; other goals included saving for college or a house, building an emergency fund, or providing current income.¹

Mutual funds offer a convenient way to participate in a broad range of market activity that would be difficult for most investors to achieve by purchasing individual securities. With almost 8,000 funds available on the U.S. market, you should be able to find appropriate investments to pursue your goals.² However, it's important to periodically examine the mix of funds you hold.

If you are approaching retirement or already retired, this may be a good time to assess the risk level and growth potential of your funds, along with any other investments in your portfolio. Keep in mind that even though it is generally wise to reduce risk as you near retirement, you may also need to pursue long-term growth opportunities.

The following overview describes some basic types of funds in rough order of risk, from lowest to highest. Investments seeking to achieve higher returns also carry an increased level of risk.

Money market funds invest in short-term debt investments such as commercial paper and certificates of deposit and are typically used as a cash alternative. *Although a money market fund attempts to maintain a stable \$1 share price, you can lose money by investing in such a fund. Money market funds are neither insured nor guaranteed by the FDIC or any other government agency.*

Municipal bond funds generally offer income that is free of federal income tax and may be free of state income tax if the bonds in the fund were issued from your state. Although interest income from municipal bond funds may be tax exempt, any capital gains are subject to tax. Income for some investors may be subject to state and local taxes and the federal alternative minimum tax.

Income funds concentrate their portfolios on bonds, Treasury securities, and other income-oriented securities, and may also include stocks that have a history of paying high dividends.

Balanced funds, hybrid funds, and growth and income funds seek the middle ground between growth funds and income funds. They

include a mix of stocks and bonds and seek to combine moderate growth potential with modest income.

Growth funds invest in the stock of companies with a high potential for appreciation but low emphasis on income. They are more volatile than many types of funds.

Global funds invest in a combination of domestic and foreign securities. **International funds** invest primarily in foreign stock and bond markets, sometimes in specific regions or countries. There are increased risks associated with international investing, including differences in financial reporting, currency exchange risk, economic and political risk unique to a specific country, and greater share price volatility.

Sector funds invest almost exclusively in a particular industry or sector of the economy. Although they offer greater appreciation potential, the volatility and risk level are also higher because they are less diversified.

Aggressive growth funds aim for maximum growth. They typically distribute little income, have very high growth potential, tend to be more volatile, and are considered to be very high risk.

Bond funds (including funds that contain both stocks and bonds) are subject to the interest rate, inflation, and credit risks associated with the underlying bonds in the fund. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. Dividends are not guaranteed.

Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. Mutual fund shares, when sold, may be worth more or less than their original cost.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1-2) Investment Company Institute, 2018



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The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

The information provided is not intended to be a substitute for specific individualized tax planning or legal advice. We suggest that you consult with a qualified tax or legal advisor.



How can you lower the costs of owning a vehicle?

Vehicle expenses can take a big bite out of your budget. According to a AAA report, the average annual total cost of owning and operating a new vehicle in 2018 was \$8,849. Fortunately, you may be able to save money by reducing three costs.

Depreciation: The loss of a vehicle's value over time was the largest expense associated with buying a vehicle, according to the AAA report. Depreciation accounts for almost 40% of the cost of owning a new vehicle — on average, \$3,289. Some cars hold their value better than others, so it's important to consider resale value before you buy. Because depreciation lessens over time, buying a used vehicle or keeping a vehicle longer can help minimize the impact of depreciation.

Insurance: The average annual cost of full-coverage auto insurance was \$1,189. Premiums are based on many factors, including the vehicle make and model, and your location. Some vehicles may cost substantially more to insure because they are statistically more likely to be damaged in a crash, stolen, or have high repair costs. So when you're in the market for a

vehicle, find out how much the insurance will cost before you sign the paperwork.

You can often save money on your insurance premium if you're willing to accept a higher deductible. You may also want to review your policy annually with your insurer to make sure you're receiving all the discounts for which you are eligible, and have only the coverage you need.

Maintenance and repairs: With an average annual cost of \$1,231, maintaining and repairing your vehicle is a big line item expense in your budget. So before you buy or lease a vehicle, talk to a trusted mechanic who is familiar with the cost of parts and general repair issues for the makes and models you're considering, or look for reliability statistics online. Get written estimates before you have any repairs completed, and shop around. Hourly labor rates and parts costs may vary widely. And keep up with regular maintenance. It can pay off in the long term, not only by preventing costly repairs but by potentially increasing your vehicle's resale value.

Source: AAA *Your Driving Costs*, 2018 Edition. Average costs are based on driving 15,000 miles annually.



Women: Are you planning for retirement with one hand tied behind your back?

Women can face unique challenges when planning for retirement. Let's take a look at three of them.

First, women frequently step out of the workforce in their 20s, 30s, or 40s to care for children — a time when their job might just be kicking into high (or higher) gear.

It's a noble cause, of course. But consider this: A long break from the workforce can result in several financial losses beyond the immediate loss of a salary.

In the near term, it can mean an interruption in saving for retirement and the loss of any employer match, the loss of other employee benefits like health or disability insurance, and the postponement of student loan payments. In the mid term, it may mean a stagnant salary down the road due to difficulties re-entering the workforce and/or a loss of promotion opportunities. And in the long term, it may mean potentially lower Social Security retirement benefits because your benefit is based on the number of years you've worked and the amount you've earned. (Generally, you

need about 10 years of work, or 40 credits, to qualify for your own Social Security retirement benefits.)

Second, women generally earn less over the course of their lifetimes. Sometimes this can be explained by family caregiving responsibilities, occupational segregation, educational attainment, or part-time schedules. But that's not the whole story. A stubborn gender pay gap has women earning, on average, about 82% of what men earn for comparable full-time jobs, although the gap has narrowed to 89% for women ages 25 to 34.¹ In any event, earning less over the course of one's lifetime often means lower overall savings, retirement plan balances, and Social Security benefits.

Third, statistically, women live longer than men.² This means women will generally need to stretch their retirement savings and benefits over a longer period of time.

1) Pew Research Center, *The Narrowing, But Persistent, Gender Gap in Pay*, April 2018

2) NCHS Data Brief, Number 293, December 2017

