

Dear Clients and Friends,

As we moved into our 30th year in business, we made a commitment to expand the number of clients we can serve. To do this, while retaining our commitment to provide excellent service to our clients in a compassionate, professional and reliable manner, we needed to hire more great people. We are very fortunate to have a very talented, skilled and professional staff.



In January of 2011, we hired Melanie Cobb, CPA as a Staff Accountant and Tax Controversy Specialist. Currently, she is representing many of our clients before the IRS in addition to providing tax services to our clientele. Among many of her accomplishments, Melanie graduated magna cum laude from Rutgers University and serves on the Board of Directors for South County Day Care in Helmetta, New Jersey.

Over 20 years ago, I served as the President of the Middlesex-Somerset chapter of the New Jersey Society of CPAs. Last month, Melanie ascended to that position. This is an amazing accomplishment for one so young and I would like all of you to join me in congratulating Melanie on this wonderful accomplishment. We are proud to have her as part of our team and know that she will continue to excel in her professional endeavors.

The article below on Maximizing Social Security Retirement benefits has been written by Melanie. It provides very important information about an opportunity to "file and suspend" your social security benefits. I find it akin to having your cake and eating it too. Everyone should consider using this method in dealing with Social Security in light of all of life's uncertainty.

Strategies for Maximizing Social Security Retirement Benefits

What is the optimal age to start collecting Social Security? That is one of the most important questions asked when planning for retirement.



Full Retirement

Full retirement age ("FRA") is the age at which you first become entitled to full, unreduced, retirement benefits. The Social Security Administration calculates one's FRA based on their date of birth. FRA varies from age 65 for those born in 1937 or earlier to age 67 for those born 1960 or later. Go to <http://www.ssa.gov/retire2/retirechart.htm> to find your FRA based on your year of birth.

Accelerating or Delaying Social Security Benefits

Anyone who has qualified for social security retirement benefits can start collecting benefits at age 62 no matter what their FRA happens to be. However, this early access comes at a price. For example, if your FRA is 67 and you apply for benefits at age 62, then your social security income will be reduced by approximately 30%. Conversely, if you delay your retirement benefits until after your FRA, you may be eligible for delayed retirement credits that will increase your monthly benefit. If you delay your retirement beyond FRA, you will receive an increase in monthly retirement benefits of approximately 8% for each year you delay up to age 70. For example, the FRA for one born in the years 1943 through 1954 is age 66. If such person retires at age 70 rather than age 66, their monthly retirement check will be 32% higher (8% times 4 years of delay).

Considerations in Accelerating or Delaying Benefits

There are multiple strategies to planning your retirement. One approach is to start collecting social security retirement benefits early, if you need the income or you are in poor health. However, this could "cost" you 30% of your social security income each year. Therefore, the longer you live after collecting social security benefits early, the more it will "cost" you for earlier access to those benefits. Another approach is to delay starting your retirement benefits as long as possible (up to age 70) to increase your monthly social security income. In this case, the longer you live after starting to receive benefits the more you will receive in your lifetime.

As an example, let's look at someone with a FRA of 67 who will receive a full monthly retirement benefit of \$2,084. This benefit will be reduced to \$1,456 per month if he were to start collecting benefits at age 62, but will increase to \$2,585 per month if he were to delay receiving social security until age 70. Excluding cost of living adjustments, at age 80 he would have received a total of \$314,496 in social security benefits if he started collecting at age 62 versus a total of \$325,104 if he started collecting at his FRA of 67. Had he delayed collecting until age 70, he would have received a total of \$310,200 at age 80. Five years later at age 85, he would have received total social security retirement benefits of \$401,856 if he started collecting at age 62; \$450,144 if he started collecting at age 67; and \$465,300 if his benefits did not start until age 70.

This analysis above is a bit oversimplified as it does not take into consideration the time value of money. However, it does make the point that in order to calculate the most beneficial age to start collecting social security retirement benefits, one needs to "guesstimate" their life expectancy. Absent a crystal ball, you can use your family health history and lifestyle choices to determine your expected life span.

The Option to File and Suspend

In lieu of making a guesstimate, one can use a little-known option to file and suspend. This option is available to those who have reached FRA, but are not yet age 70. Ideally, this should be done one month prior to reaching FRA to reach the maximum benefit, as you can only voluntarily suspend benefits for any month for which you have not received a payment. Your request to suspend benefits may include any retroactive benefits that might be due. When you file for retirement benefits, the Social Security Administration will make a determination of the benefits you are entitled to receive, but by suspending the benefits you will not receive any payments until you choose to receive the income. This allows you to wait until age 70 to achieve the highest monthly income, but if concerns arise regarding your longevity, you can choose to receive retirement benefits retroactively from when you first filed. When you receive the retroactive benefits from when you initially elected to file and suspend, your monthly social security retirement benefit will reset back to the monthly benefit amount calculated at the time you initiated the file and suspend. Thus, by receiving the retroactive lump sum benefits, you forfeit the increase in monthly benefits due to the delayed retirement credit. Therefore, you will want to determine at that time which strategy is in your best interest.

Another strategy to file and suspend is available if you and your current spouse are at FRA. One of you can apply for retirement benefits now and have the payments suspended, while the other applies only for spousal benefits. To do this, you must file a restricted application, so that the request for benefits is restricted to only the spousal benefit, but this can only be done once both spouses reach their FRA. This strategy allows both of you to delay receiving retirement benefits on your own work records, so you can get delayed retirement credits to maximize the highest amount of retirement income possible. However, if you want to do this, only one of you can apply for retirement benefits and have the payments suspended. You may voluntarily suspend current or future retirement benefit payments up to age 70 beginning the month after the month when you made the request. To maximize the benefits of the file and suspend method with spousal benefits, the spouse with the higher monthly benefit (based on their own work history) should file and suspend, and the spouse with the lower monthly benefit collect the spousal benefit.

Option to Withdraw Claim & Repay Benefits

If you started receiving Social Security benefits within the past 12 months and you change your mind about when you should have started, you may withdraw your Social Security claim and re-apply at a future date. However, you must repay all the benefits that you have received. This process enables you to reset the level of your monthly benefit due to your increased age when you ultimately secure benefits. This is, in effect, a "do-over."

Additional Resources

No matter what your strategy is for social security retirement benefits, you should visit the Social Security Administration website (www.ssa.gov) and create an account to view your social security statement which will detail all the benefits you are entitled to receive under your own work history record. In addition, you should feel free to contact our office for any assistance that we can provide.

Defense Of Marriage Act Overturned with Respect to Federal Benefits and Federal Tax Laws

Written by E. Martin Davidoff

On June 26th, the United States Supreme Court found that Section 3 of the Defense of Marriage Act ("DOMA") was wrong in failing to recognize state-authorized same sex marriages. As a result, all legally married gay and lesbian couples, residing in states that recognize their marriages, are considered married for purposes of all federal programs and tax laws. Thus, such couples are entitled to spousal social security benefits and significant estate tax savings. Furthermore, such couples must file their U.S. individual tax returns as "married" whether that be "married-filing jointly" or "married-filing separately".

Edith Windsor won her case claiming a refund of \$363,053, plus interest, for overpaid estate taxes paid on the estate of her late wife, Thea Spyer. The full impact of the decision on Federal tax filings is still not known. However, it is clear that all couples who have legally married in their state of residence will be treated the same as their heterosexual counterparts. This means that they will be able to file joint federal tax returns and can no longer file as Single. What is still not decided is how couples married legally in a state that recognizes same-sex marriages will be treated if they reside in states that do NOT recognize same sex marriages. These matters must now be addressed by the IRS along with issues such as dealing with possible refund claims.

What is the impact on same-sex couples who have been divorced? Are alimony payments now income to the recipient spouse and a deduction to the paying spouse?

Although the gay and lesbian community is happy with the Windsor decision, some in their communities will be paying a higher income tax bill as a result of the "marriage penalty" inherent in the tax code. Affluent couples with approximately equal income are likely to pay higher income tax rates as married than they had as single.

More to come on this issue, for sure.

Very truly yours,

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