Beware of Tax Scams! - Transcript

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Tom Mullooly: Welcome back to the podcast, this is episode number 345. I'm Tom Mullooly, and joining me today is Brendan Mullooly, and Tim Mullooly.

Brendan M: I think we've declared that winter is officially over, right?

Tom Mullooly: Winter is over, February 25th. It's over.

Brendan M: Who needs the groundhog?

Tom Mullooly: Yeah.

Brendan M: We'll tell you when it's over.

Tom Mullooly: Yeah. I've just declared that I've had enough of winter, and it's time to move on.

Brendan M: Amen.

Tim Mullooly: It's funny that a week ago today, we were getting a snow storm.

Tom Mullooly: We had a snow day, we all worked remotely.

Tim Mullooly: And now, this is three days in a row where it's sunny and probably going to be 50 degrees.

Tom Mullooly: Yeah.

Tim Mullooly: So, I'm okay with that.

Tom Mullooly: So with spring comes tax filing season. And how was that for a segue? Tax season is in full swing, and so are tax scams, unfortunately.

Tim Mullooly: Yeah, there was an article in CNBC highlighting this topic. And it's an important point for people to understand, especially this time of year. And especially this year in particular, there are a number of different changes, and different programs, and things that came about due to the pandemic that make filing taxes different this year. And there's more opportunity to get money from the government. So, people might be more inclined to try and rip you off.

Brendan M: A good point from the article was just that you're never going to get a phone call, or an email, or a text from the IRS. And so if you do, I know that I've got automated calls before that are telling me it's the IRS.

Tom Mullooly: Yeah, you've got to pay now.

Brendan M: Don't pay attention to that stuff. If you have to communicate with them, you are more likely than not going to receive an official letter in the mail. And then if you have somebody you work with on your taxes, you show it to them and you go from there. But they're not going to send you a text and say, "You owe us money." So don't fall for things like that.

Tom Mullooly: Yeah. It's very rare for the IRS, even on the initial contact to say you owe money. Unless there is something that's been omitted from your tax return that's very clear, like you received a 1099 and you forgot to enter that information into your return. Then there would be a discrepancy and they'd want you to explain. But they'll never-

Brendan M: You're going to get a letter about that though, right?

Tom Mullooly: Right. You won't get a bill initially.

Brendan M: You're not going to get a Snapchat from the IRS saying, "Hey, you owe us money."

Or just be on the lookout for official letters. But sometimes these emails that you get, they do look very official. Maybe they'll have the letterhead of a letter with the seal of the IRS on there. I get these things in my inbox all the time and just drag them to spam. So you never know, you can't be too careful.

Tom Mullooly: And I think that that's really the crux of the problem is that most of these IRS or tax scams stem from identity theft. And the way that these scammers get your personal information is often by loading some kind of virus or trojan or something into your computer. How does it get there? Usually-

Tim Mullooly: Opening emails, or clicking on something that you thought was real, but it wasn't. And then it gets into your personal information that you put into the computer. So I think it's important to be cognizant of where you're uploading some information, or what you're sending in an email. Even if you're sending it to someone that you trust, it could get hacked along the way, or something like that. They've said that over 89,000 people reported tax fraud linked to identity theft in just last year alone. So, it does happen to a lot of people.

Tom Mullooly: And these scammers are getting really clever. Like you mentioned, Brendan, they're using the real logos and emblems. So, it actually does make you pause and look at it. I'm getting tons of Microsoft-related spam emails. Like, "Oh, you have a voicemail message in your inbox." Play it, you know that you are triggering something evil if you were to click on that.

Tom Mullooly: Another thing that I've picked up on is that they will sometimes, like if you have an M, a lowercase M in your email address, they'll use an R and an N. And if you don't pay attention, it looks like an M. And that's how they trick people into clicking on these things. "Oh, it was from somebody I know."

Brendan M: So you got to be careful, especially considering that this year, if you haven't in the past, you might be doing more of your tax filing process virtually this year. So, if you're uploading things to some kind of a portal that your CPA or your tax preparer is using, you got to do a lot more of this stuff on the computer than maybe you might have in years past. And so, yeah, more opportunity to end up with something that's not real or get hacked. So just be careful when you're doing this stuff.

I think it's safe to work with somebody virtually, just be careful about where you're putting these… These documents that you're giving them, you don't want your W-2 or 1099s falling into the wrong hands. So make sure that however your tax preparer is collecting this information, you're just following the steps.

Tom Mullooly: I know that Tim will link to this article in the show notes. But as I read this article, it made me think of another article that I read yesterday, where the head of the IRS was quoted as saying that more tax returns have been filed early this year than ever before. So I don't know if they're real or fake. These scammers could be on the ball.

Brendan M: People are always hopeful if they're anticipating some kind of a refund to get their return filed as quick as possible. Could be a situation this year especially though where people who should have gotten the stimulus checks over the course of last year, the first round and then the ones that went out in January as well, should have gotten those and didn't because of a discrepancy in their income from 2018 or '19, and maybe they were laid off last year.

And so, if they go to file now, they're at least going to get that tax credit on their return. So people are probably, a combination of a lot of things, but hoping that maybe they're getting some money back, or finally getting relief that they should have received in 2020.

Tim Mullooly: In the article, they said the one sure-fire way to avoid this happening is to just file as early as possible.

Tom Mullooly: Don't think this won't happen to you, because it happens to… We get calls frequently from clients about scenarios like this. So it can happen to pretty much anyone out there.

We often get pulled into discussions about whether it's the right idea to take Social Security early, or to let it compound. And this is such a wide open field, ripe for a lot of discussion. Jonathan Clements, who has a great website called the Humble Dollar, wrote about it. And Tim, you actually interviewed Jonathan about a year or so back.

Tim Mullooly: Yeah, on Living With Money. That was a fun interview. In this article, he addressed a couple of points, or I guess you could call them myths about Social Security that some people believe that might not necessarily be true about why you should claim early.

And a few of them, I think, were that you'll enjoy the money more in your early 60s than you would if you waited later in life. There were a couple others that he pointed out, as well.

Tom Mullooly: So he talked about, if your health situation is not, you're not in good health, you may want to think about filing early. Maybe you're out of work right now and you're 62, it may be something to consider. But there's also that discussion that we have all the time that people say, "Well, I don't think Social Security is going to be there for me when I'm ready to retire."

I don't know. We hear so many discussions and so many different points of view on this. It's just my own personal take that I think it would be suicidal for politicians to talk about cutting Social Security. And they have proven that when they're in a jam, they can print money if necessary, like they did last year with the pandemic. And so, I think the discussion of Social Security not being there in the future becomes less and less of a topic. Do you agree?

Brendan M: Yeah, I don't think that trust or distrust of the government or Social Security as an entity should factor into your decision to claim it at all. And I know that that's somewhat of a hot take, but that's what I believe.

Some interesting stats about the idea that maybe you would enjoy your money more early on in retirement versus later on, Jonathan had numbers that showed that average households age 65 to 74 spend about $55,000 a year while they're pulling in about $65,000 a year. So they're spending about 84% of that income. And then, those 75-plus spent on average about $44,000 a year while pulling in $42,000 a year. So they're spending 104% of what they're bringing in. And he posited that maybe folks do spend less as the numbers bear out as they get older.

But that may not necessarily be because of the fact that they would enjoy it more earlier. It may just be dictated by their resources. They're spending less over time because they have to, not because they want to spend less. And so, I think that's interesting to consider. And certainly, there are going to be some among us who reach advanced ages, and they just aren't getting around, they're not as mobile as they used to be, and they're definitely not spending less.

But we don't know ahead of time who that's going to be and who that isn't going to be. I've met people in their 80s and even into their 90s that are sharp as a tack. We listened to Charlie Munger yesterday who's as bright as they come, and what is he now, 95?

Tom Mullooly: 94.

Tim Mullooly: He's 97.

Tom Mullooly: Oh, sorry. 97 and he still has a potty mouth.

Brendan M: Somewhat of an outlier, but you don't know for sure how you personally are going to age. You may have ideas based on health situations that you currently have, and all we can do is make best guesses. But to just assume, or to assign your 80-year-old self, let's say, yeah, 80-year-old Brendan's going to want to spend less. I don't know if 80-year-old Brendan would like you speaking on his behalf today.

Tim Mullooly: Sure.

Tom Mullooly: And it's also hard to tell in the future what you're going to need in terms of what you want to spend versus what you need to spend. So, very hard to say. And I think that part of the problem when we discuss this with folks is they want to spend money. But the trap is, what if they do live into their 90s?

Brendan M: So Social Security, if you think about it that way, is your hedge against living a really long time. And so, I think in some way, shape or form, what they talked about in the article was maximizing for the most spending potential over the course of your retirement. And it's a little sticky because we don't know how long exactly that will be, because nobody knows what their true life expectancy is.

But, and just having the most options available to you and the most income possible over the course of your retirement. Which may mean you might be drawing from different sources, or spending slightly less over the first couple of years to ensure that you're not living on an amount that's being forced upon you later on just because those are the terms.

Tom Mullooly: Both Tim and Brendan, you've worked on cases for clients where that's been an eye-opening discovery for some people where it's like, "Well, I'm going to live on Social Security, and I'm not going to take dollars out of my retirement account until I'm forced to at age 72." And it changes the discussion.

Brendan M: There's a lot of room in between to have a discussion about that, because if you were talking about a married couple approaching the age where this enters the discussion, you could be in a situation where you're going halfway on some of these things, where maybe it makes sense for one of the spouses to claim Social Security. And then you're going to fill up the rest with distributions from retirement accounts, or taxable savings, brokerage accounts, or maybe there's pensions that factor in.

And so, I just think, unfortunately the true answer when it comes to this is always that it depends because you have to take into account what your other options are. It shouldn't just be assumed that you're taking it as early as possible when it comes to a pension or to Social Security, because those are important cogs in the retirement income that you'll have over the course of your lifetime. And those are irreversible decisions, in many cases. So you want to make sure that when you're making them, that it's something you're comfortable with for the long run.

Tom Mullooly: In the last episode, we talked about income annuities. And one of the things that we mentioned it is that Social Security is probably the ideal kind of income annuity, because you paid into it while you were working, it's essentially free, and it's indexed for inflation. So your income climbs as inflation climbs.

So, when we look at annuities, there was a little bit of industry news that came out, and I just want to touch on this very briefly, that the IRS has ruled on tax treatment for advisory fees for annuity contracts. So insurance company, Security Benefit, received a private letter ruling from the IRS that payment of advisory fees from an annuity contract are not treated as a taxable distribution, or a taxable event, by the contract owner.

So in the past, if your advisor was trying to bill on an annuity, if they were taking fees out of the annuity, that would actually count as a distribution for the client. I forget what firm it was, but very, very early on in the world of IRAs, it was deemed pretty quickly by the IRS that taking advisor fees out of retirement accounts is not considered a taxable distribution.

So now, advisors can do the same thing with subtracting their advisory fees from annuities, as long as it doesn't exceed 1.5% of the value of the account. So, a little bit of news there. Something that hasn't been able to be done before is now okay.

Tim Mullooly: And I think 1.5% is, in today's world, pretty high.

Tom Mullooly: It's generous.

Tim Mullooly: Yeah. It just seems like they made it easier for these advisors to get their fees out of annuities. I guess it wouldn't be harming the client, but it does make it more justifiable, I guess, to take them directly from the annuity for the advisor.

Tom Mullooly: Yeah. I sometimes feel like I'm launching a holy war or a crusade when I say that annuities are not actually investments, they're insurance products. And if you use it as an investment vehicle, it's probably one of the single most expensive ways to invest.

Brendan M: The purported one and a half percent we're talking about would be on top of the insurance costs, like the mortality and expense ratio that's just baked into most of these policies anyway. So, yeah, agree. Not a good growth vehicle, and should be way down the list in terms of things you're looking to put money into, with a lot of stops to make before getting to considering that.

Tim Mullooly: Did you guys see that GameStop is back up to $129? And that it's up 187% in the last 24 hours? What do you think is causing round two of the surge in GameStop? Because I feel like, is it the same thing that happened in round one?

Tom Mullooly: Well, we had a conversation off mic where I said, "There were probably some very sharp people in the last couple of weeks who saw GameStop at 300 and $400 a share. If they had stock available to borrow, that would honestly be the textbook short right there."

So, I want to believe that seeing GameStop move as much as it did yesterday, I don't know what it's doing this morning, but that would appear to be short covering for me if you sell it at 300 or 400, and look to cover it back at 60, or 70, or even $80, that's a really good round trip. That really could be the only thing that would explain it. The fundamentals, the story hasn't changed with GameStop.

Brendan M: Yeah. If I've learned one thing from all of this it's that, it's probably better to be in a position where all of this is just amusing. Because you don't need to participate in any of this to have a sensible investment plan. Because I just think people are going nuts.

You either got people on one end looking for lottery tickets for the stock to go gangbusters up, or people who I think are just… You don't need to short stocks to make money investing. And I feel like people who do that, first off, it's really hard. And you don't hear about many people who are famous, very rich, wealthy short sellers.

I don't know why people feel that's the way they have to participate in order to make money in the market, because that's the furthest thing from the truth. You're making it way too hard.

Tom Mullooly: It's a lot of work.

Tim Mullooly: There was a funny tweet from Conan O'Brien, I think it was two days ago, making a joke, "All right, I'm finally getting in on GameStop." So he was like, "I finally decided to buy GameStop, wish me luck." And then people circled back to it yesterday when it was up 186%. And they were like, "Oh my gosh, did you actually buy it?" Because if he did-

Brendan M: Is Conan O'Brien the new Warren Buffet?

Tom Mullooly: Right?

Tim Mullooly: What does he know? But he was just making a joke about it. But hopefully for him, he actually did buy it, because that would be quite the luck.

Tom Mullooly: When you talked to the old fogies in the business, they're pretty quick to remind people that Joseph Kennedy, the father of JFK, and RFK, and the whole Kennedy clan made a lot of money shorting stocks in 1929 during the crash. But he was actually a, most of the time, a long holder of stock. So he was an investor who found a good opportunity to go short against the market.

But you're right, Tim, in the sense that, and Brendan also, in that going short as a business model is really, really hard to do.

Brendan M: Markets go up most of the time. You're going to lose money most of the time. Are you prepared for that, or do you have perfect timing? Those are my questions to you. And if you don't feel confident about either of those things, then don't bother.

Tim Mullooly: Yeah. I think that's a good place to stop for this episode. Thanks for listening to episode 345 of the Mullooly Asset Podcast, and we'll see you next week.