Year End Planning

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As we approach the end of another year, it's prudent that we each take the time to revisit and review financial and estate planning goals. It's also timely to consider implementing specific strategies to help keep on track for long-term success. In these final weeks of 2016, we encourage you to touch base with us, your team of advisors, to reflect on the events of the past year and to review any applicable tax strategies, savings and investment strategies for your unique situation. It's also a time to turn a thoughtful eye toward planning for 2017 and beyond, taking into consideration any potential changes in tax and estate law, especially in light of the administration change.

This month we emphasize the importance of verifying that your planning continues to reflect your goals and circumstances, and that any changes are correctly reflected in your investment portfolios, asset allocation, and security selections.

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Techniques

The individual income tax rates for 2016 are: 10, 15, 25, 28, 33, 35 and 39.6 percent. The starting points for the 39.6 percent bracket for 2016 are : $415,050 for unmarried individuals and $466,950 for married couples filing a joint return. Additionally, higher income taxpayers may be subject to the 3.8 percent surtax on their net investment income.

	2015	2016
Maximum income tax rate	39.6%	39.6%
Maximum capital gains rate	20%	20%
Maximum dividend rate	20%	20%
Estate tax exemption	$ 5.43m	$ 5.45m
Maximum estate tax rate	40%	40%
Gift tax exemption	$ 5.43m	$ 5.45m
Maximum gift tax rate	40%	40%
Annual gift tax exclusion	$14,000	$14,000

Time Income: One way to reduce taxes in the current year is to delay income to the next year. To the extent possible and where it makes sense, consider postponing any year-end payouts, bonuses, commissions or other taxable income until after year-end. By delaying income, you can delay taxes on that income. Income tax rates are expected to be reduced in 2017 with the Trump administration and a unified Republican Congress.

Harvest Losses: While taxes should not be the overriding factor when developing an investment strategy, they are certainly an important component to consider – especially in taxable accounts. It may be advantageous for you to examine your taxable portfolio in search of investments that have declined in value. Selling investments with unrealized losses before year- end to lock in a tax loss can be beneficial, in the short, as well as long term.

First, losses can be used to offset other investment gains that have been realized this year. (This can be particularly helpful to combat short-term capital gains taxes, which are taxed at ordinary income tax rates). Additionally, you are able to carry forward an unlimited amount of any losses into future tax years. These losses can be applied toward future gains, but you can also write off $3,000 per year of unused losses against ordinary income. Beware of the IRS *wash-sale* rules as they may apply and prevent you from claiming a loss if you buy a substantially identical investment within 30 days of the sale.

In light of the new administration and the potential for tax rate decreases and changes, we believe losses should be recognized to the extent possible for 2016 as such losses will likely have more value this reporting year rather than the next.

When harvesting tax losses, always make sure your decisions benefit your overall financial objectives. Don't let the "tax" tail wag the "investment" dog.

Rebalance: As you consider the pros and cons of tax-loss harvesting in the context of your overall portfolio, you might be able to accomplish two goals; rebalancing your portfolio to its intended asset allocation targets while tax-loss harvesting at the same time.

The stock market has appreciated over the course of this year and the bond market is only modestly higher, so chances are you may now have more exposure to stocks than you did when the year began, which may add more risk to your portfolio than you intend.

A disciplined rebalancing strategy is a simple and easy way to remove emotion from your investment decisions by forcing you to sell high and buy low, thereby bringing your portfolio back in line with its intended longer-term investment objective.

The end of the year is also an excellent time to reevaluate your investment objective, risk tolerance level, and the liquidity events that are going to influence the next 2, 5, or 10+ years of your financial life. The volatility of the past several years and the prospects for tomorrow may give you pause, and it is important for you to discuss these concerns with us. We, as a matter of practice typically raise these issues at our regularly scheduled meetings.

Increase Savings: One of the best tax planning opportunities that may be applicable to other family members is to maximize your retirement plan contributions. By making elective deferrals to your 401(k) account in addition to what your employer contributes, you can reduce your income by up to $18,000, or $24,000 if you are age 50 or over. Contributing to your 401(k) plan is a great long-term savings option; the contributions are excluded from your current income, which helps lower your tax bill.

If you work and are not covered by a retirement plan, you can still make an IRA contribution in 2016, before you file your 2016 return. Those contributions are deductible in 2016. You have 15 months to contribute to an IRA for the current tax year. For example, you can make 2016 contributions any time from Jan. 1, 2016, to April 15, 2017. Increasing the pre-tax amount you contribute to your retirement savings plan before year-end will reduce the amount of salary that will be subject to taxes in 2016.

Retirement Plans	2016 Contribution Limit	2016 Catch-up provision (age 50 and over)
401(k)/403(b)	$18,000	$6,000
IRA/Roth IRA	$5,500	$1,000
SEP IRA	Lesser of $53,000 or 25% of compensation	N/A

Take Your Required Minimum Distributions: If you're over age 70 ½ and you own traditional IRAs and/or 401(k) plans, don't forget to take your annual Required Minimum Distribution ("RMD"). You must take your first RMD by April 1 of the year following the year in which you turn 70 ½. All subsequent annual RMDs must be taken by December 31 of each year. As with other types of planning, we are willing to assist with monitoring this.

Failure to take an RMD can result in a penalty tax of 50 percent of the required amount not withdrawn. In addition, you will be required to pay ordinary income tax on the full amount.

If you turned 70 ½ this year and you decide to defer your first RMD until April 1, 2017, be aware that you will be electing to take a double distribution in 2017, i.e. the amount required for 2016 plus the amount required for 2017. This may be advantageous in light of tax reform in 2017.

However, transferring extra income into 2017 might push you into a higher tax bracket under current law or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial if you will be in a substantially lower bracket next year and the expected tax law reform occurs.

Annual Gifting

Give to Charities: Gift giving is a tradition during the holiday season and your generosity may pay off at tax time. As you're putting together your holiday shopping list, be sure to include charitable gifts that could help reduce your tax bill. In addition to giving dollar donations or household goods and clothing, consider some less traditional ways to give.

Giving appreciated stocks or mutual fund shares that you've owned for more than one year gives you a double tax benefit. It boosts the savings on your tax return; your charitable contribution deduction is the fair market value of the securities on the date of the gift, not the amount you paid for the asset. In addition, you never have to pay capital gains taxes on the appreciation of your gift.

If your favorite cause can't accept donations of appreciated securities, consider opening a donor-advised fund instead. The fund administrator will sell the securities for you and add the proceeds to your account. You can deduct the value of the securities on your 2016 tax return and decide later where you want to donate the money. We can assist you with this process.

Give to Family and Friends: Use your gift tax exemption to make substantial lifetime gifts or annual exclusion gifts: Make annual exclusion gifts on or before December 31st each year. **Each person may make annual gifts that are free of gift tax, in an amount up to $14,000 ($28,000 for a married couple) to an unlimited number of individuals (not restricted to family).**

Consider utilizing a substantial portion (or even all) of your gift tax exemption by making a larger gift to family members or others. This type of planning requires coordination with your tax advisors where applicable.

The estate-tax exemption is now $5.45 million (twice that for married couples), indexed to inflation. Such a gift could remove the value of the gifted asset, plus future appreciation, from your estate. Also, if exemptions later decrease, gifts that were already made might be excluded from estate tax liability calculations.

Fund Education: Consider funding 529 Plans by December 31 to apply 2016 annual gift tax exclusion treatment to the contributions. You can "front-load" 529 plans by making five years' worth of annual exclusion gifts to a 529 plan. In 2016, you can transfer $70,000 ($140,000 for a married couple) to a 529 plan without generating gift tax or using up any of your gift tax exemption.

Update Your Financial and Estate Plan

The end of the year is a great time to review various aspects of your financial and estate plan, including your will, trusts, and powers of attorney. Ensure the documents reflect any material changes such as additions to the family, divorce, or a trustee that is now deceased.

In addition, make sure the beneficiary designations are up-to-date on your retirement accounts, life insurance policies, and other contractual accounts. We find that often times it has been years since clients have reviewed their estate planning documents and beneficiary designations; life happens and things can change.

Annual Checklist

- Revisit your estate planning documents to ensure that you're still comfortable with named trustees, executors, guardians, bequests and dispositions. Confirm that any agents named under your medical and financial powers of attorney are still appropriate.
- Communicate the location of your estate planning documents to all individuals named to handle your affairs (e.g., executor, agents, trustees). Documents should be placed in a secure location, but should be easily accessible by said individuals.
- Revisit your insurance coverage to confirm that your current life, property & casualty and long-term care insurance policies continue to appropriately meet your coverage needs.
- Review the titling of your assets to ensure that they will be distributed according to your wishes and are properly coordinated with your estate planning documents.
- Review the beneficiary designations for your retirement plans, your insurance policies and other contractual accounts to confirm they are up-to-date.

We hope this month's newsletter serves as a reminder to implement strategies that you may have already embraced, or it can serve as a source of new ideas that may prove suitable for your unique circumstances. We stand ready to assist with this process, alongside your tax and legal advisors, to guide you through all the areas described, and help you set your course for year- end and beyond.

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Now What?

We have remained mildly cautious on equities as the modest summer rally has faded throughout the fall. We have recommend maintaining slightly higher cash positions as our perception of market risks remain elevated. We maintain our underweight positions in small caps, international and emerging market equities. We also maintain our positions in high quality, medium duration bonds, and remain cautious on weightings to high yield bonds and interest rate sensitive securities.

Our stance could be changing shortly, as we stand ready to take advantage of any substantial selloff in either equities or fixed income as risk perceptions shift.

If you would like more information please contact us at 954 809-6363.

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