The
FINANCIAL UPDATE

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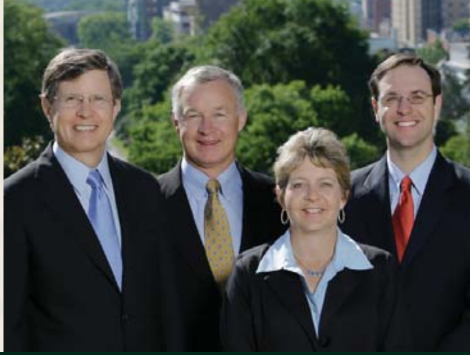
FEE-ONLY FINANCIAL PLANNING



Fourth Quarter 2016 NAPFA - Registered Financial Advisor (478) 474-7480

Watch Out For These 7 Retirement Ups And Downs

Have you heeded the usual dire warnings about retirement? You may have made all of the necessary preparations, including saving enough to have a strong likelihood of living comfortably in your golden years. However, the economic and practical realities may be harsher than you expect. Consider these ups and downs that might hinder your plans:

1. The stock market could go down. People are quick to forget the hard lessons learned from previous stock market downturns—such as in 2008 and 2009, when the market lost about half of its value. Volatility in equities is inevitable and if the market drops while you're making withdrawals, the value of your retirement portfolio could plummet. Suppose you have a portfolio valued at $1 million and you anticipate withdrawing 5% a year, or $50,000, during retirement. If your holdings drop 25% next year, you'll be left with $750,000—and that same withdrawal amount rises to almost 7% of the portfolio, a withdrawal rate that would be very difficult to sustain.

2. Your health care costs could go up. Some people think they'll have it made when they reach age 65 and become eligible for Medicare. While Medicare may reduce your health insurance outlays, you'll still likely need supplemental insurance, and there will be out-of-pocket expenses. And what if you need long-term care? In 2016, the average cost of a private room in a U.S. nursing home was $7,698 per month, according to the Genworth Cost of Care survey. That's more than $92,000 a year.

3. Inflation could go up. Inflation has been negligible during the past decade. Nevertheless, steep price increases could return quickly, and even if inflation doesn't spiral dramatically like it did during the 1960s and '70s, it's safe to assume that your expenses are likely to go up during your retirement years, while your savings may lose value. If you withdraw the same amount from your portfolio each year, expect that money not to stretch as far as it once did.

4. Your taxes could go up. You may expect your tax bill to go down during retirement because you'll likely earn less than you did at the peak of your working career. But various factors could result in higher-than-expected taxes. The tax break you likely got when you were contributing to your 401(k) and IRAs will end, and now you'll have to pay income tax on the money coming from those accounts. Up to 85% of your Social

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Could Tax Cuts Really Happen In 2017?

Because of the election we believe a significant tax reform package is a very real possibility in 2017. Trump's plan is similar to the one offered by House Speaker Paul Ryan and House Republicans. It calls for reducing today's six income tax brackets to three: 12%, 25% and 33%. The plan would also repeal the alternative minimum tax. The standard deduction would increase to $30,000 for married filers or $15,000 for single filers. Itemized deductions would be capped at $200,000 for married tax payers and $100,000 for single tax payers.

For investors, Trump's plan calls for a 20% tax rate for capital gains and dividends. He would repeal the net investment income tax (the 3.8% surtax on investment income for wealthier tax payers that was imposed as part of the affordable care act). Trump has also proposed repealing the estate and gift tax. See page 3 for more details.

We will keep you informed on the proposed tax reforms as they develop through our quarterly newsletters and our weekly blog. You can sign up for our weekly blog at www.dayandennis.com.

Sincerely,
Day & Ennis, LLC

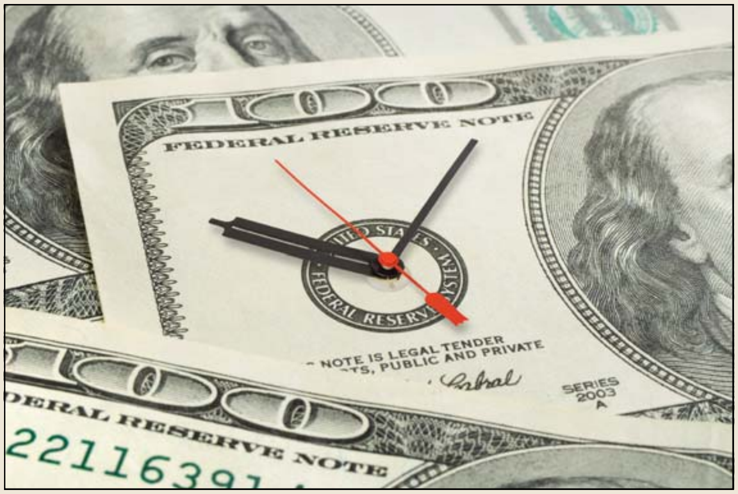
7 Late Moves To Cut Tax This Year

As the days left in the year dwindle to a precious few, there's still time to implement tax-saving strategies. Here are seven possibilities to consider:

1. Harvest capital gains or losses. If you have prior gains from securities sales, you might now sell other investments at a loss to offset those gains—and up to $3,000 of ordinary income. Or you could realize gains now to be absorbed by losses you've already taken. Profits on securities you've held at least a year that aren't offset by losses will be subject to the maximum long-term capital gain rate of 15% (20% if you're in the top tax ordinary income bracket).

2. Boost 401(k) contributions. Adding to your 401(k) plan increases your nest egg for retirement while likely reducing your current tax bill. For 2016, you can defer up to $18,000 of pre-tax salary to a 401(k) ($24,000 if you're age 50 or older). One way to find that money: Use payroll tax savings that you get when you clear the Social Security wage base of $118,500.

3. Pay next semester's tuition. Parents normally can claim one of two higher education credits or a tuition deduction for students in college. But each tax break is phased out based on your modified adjusted gross income (MAGI). If you're under the MAGI limit, consider paying the spring semester's tuition in December—because the tuition deduction is scheduled to expire after 2016.



4. Give more to charity. One fast way to reduce your taxable income at year-end is to donate money to a qualified charitable organization. If you keep the proper records, you generally can deduct the full amount of the donation on your 2016 return. This includes contributions charged to a credit card late in the year even if you don't pay off the charge until 2017.

5. Accelerate tax payments. Prepaying state and local taxes that are due on January 1, 2017, could increase your deduction for those taxes for 2016. This is a common strategy for reducing the current year's tax bill, but you'll need to do it again in subsequent years to avoid inflating future taxes.

6. Go to the doctor or dentist. Medical and dental expenses are deductible only to the extent that they exceed 10% of your adjusted gross income (7.5% if you're age 65 or older). If you're at or near that threshold for 2016, you could schedule non-emergency visits, such as physical exams and routine dental cleanings, to take advantage of this deduction.

7. Support an elderly relative. You generally can claim a dependency exemption for an elderly relative only if you provide more than half of the person's support for the year and his or her taxable income doesn't exceed the personal exemption amount of $4,050. If it makes sense, chip in a little extra support this year to clear the half-support mark. ●

Tax Rewards For Year-End Generosity

If you're looking for ways to cut your taxes before the end of the year, consider donating cash or property to a qualified charitable organization. Besides helping out a worthy cause, you can reduce your taxes for 2016, as long as you adhere to the rules. But there are several potential obstacles to overcome.

For starters, you generally can deduct the full amount of cash contributions to charity as long as the total doesn't exceed 50% of your annual adjusted gross income (AGI). (If you give more than that, you can carry the excess forward to future tax years.) Yet the IRS insists on strict recordkeeping for cash and cash-equivalent donations.

To claim a deduction, you have to be able to provide a bank record or a written communication from a qualified charitable organization, required for gifts of $250 or more. Such a notification must show the amount of the contribution, the date it was made, and the name of the charitable organization. And you need to have it in hand by the date you file your return or the date that it's due, plus any extensions.

Things get more complicated if you give gifts of appreciated property. Generally, such donations are limited to 30% of your AGI, with any excess deducted in future years. But if you donate securities that would have produced a long-term capital gain (on investments you'd held for more than a year) if you'd sold them, you can write off the property's fair market value (FMV) on the date of the donation. Otherwise, the deduction is limited to what you paid for the property.

Suppose you donate stock to a qualified charity in December. You acquired the shares for $3,000 two years ago and the FMV is $5,000 on the date of your donation. In this case, your deduction isn't limited to

Seven Key Parts Of Trump's Tax Reform Plan

On November 8, 2016, Donald Trump was elected the 45th president of the United States, culminating a two-year campaign. It is expected that it will take considerably less time for the former business mogul to push tax proposals through a Republican-led Congress. Although these provisions likely will be tweaked during congressional debate and negotiations, here are seven key items on Trump's tax agenda:

1. Individual tax rates. One cornerstone of Trump's tax plan is a restructuring of individual income tax brackets. The seven-bracket system now features a bottom tax rate of 10% and a high of 39.6%. Trump would replace the system with one having just three tax brackets: 12%, 25%, and 33%. Most taxpayers could pay less with this structure, but the largest benefits will be for those in the higher tax brackets.

2. Corporate tax rates. Another consistent theme in Trump's campaign was a pledge to reduce corporate income tax rates. Corporations currently pay tax at rates as low as 15% and as high as 35% (with a 38% bubble on some income). Under Trump's plan, all businesses would be taxed at a 15% rate, providing a tax cut to the majority of corporations. At the same time, Trump hopes to eliminate "double taxation" for C corporations, while preserving benefits such as liability protection.

3. Itemized deductions. Although Trump is offering tax relief to individuals with one hand, he would take it away with the other by eliminating some itemized deductions or limiting the total amount of itemized deductions. However, exceptions could be carved out for certain deductions, such as those for charitable donations and mortgage interest. The loss of the state income tax deduction could have an adverse effect on upper-income residents of states with high tax rates, such as California and New York.

4. Business write-offs. Under Section 179 of the tax code, a business currently may deduct up to $500,000 of the cost of assets placed in service during the year, subject to a phase-out threshold of $2 million. Plus, a business may be entitled to a bonus depreciation of 50% on qualified property. As part of his plan to boost business growth, Trump would double the Section 179 deduction to $1 million and provide an immediate deduction for business investments. This could be accompanied by a repeal or modification of the depreciation rules.

5. Estate taxes. Trump has proposed to repeal the federal estate tax. In addition, he has called for eliminating the tax rule allowing heirs to adjust the taxable basis of inherited property to its value at the death of the person making the bequest. This so-called step-up in basis may reduce capital gains taxes on inherited assets. The proposed changes could cause income tax complications for some taxpayers.

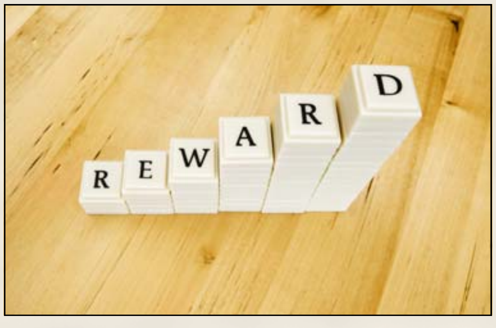
6. Repatriation tax. Tax revenue has shrunk in recent years due to so-called "tax inversions," through which multinational companies relocate their headquarters in a foreign country to avoid paying higher U.S. taxes. Trump has advocated a one-time tax repatriation holiday rate for corporations that would let them pay a tax rate of 10% on income brought back to the U.S.

7. Child care. The current tax law attempts to help beleaguered parents through a child tax credit (CTC) and a dependent-care credit for certain child-care costs. Low-income families may benefit from the earned income tax credit (EITC). Trump would overhaul the rules and institute a new deduction for child-care expenses, increase the EITC, and create tax-favored dependent care savings accounts, among other changes.

Many more changes could be in the works. For instance, Trump has advocated repealing the alternative minimum tax (AMT), the benefits for "stretch IRAs" that let inheritors spread out distributions over their life expectancies, and the 3.8% surtax on "net investment income" authorized by Obamacare. ●

$3,000—you can deduct the entire $5,000, and you avoid paying taxes on the $2,000 that the shares appreciated.

Other special rules may come into play. For instance, if you donate artwork to charity, the art must be used to further the charity's tax-exempt function. So a gift to a museum that shows the art should qualify for a deduction.



Finally, keep in mind that most itemized deductions, including those claimed for charitable contributions, are reduced for high-income taxpayers under something known as the Pease rule. Your tax advisor can tell you more.

Charitable donations can be made through New Year's Eve and still qualify for a deduction in the current tax year. And if you make an online contribution on December 31 and charge it to a credit card, it still will count as having been made in 2016—even though you won't pay the bill until 2017. ●

4 Year-End Strategies For Investors

The end of the year is a great time to assess your current investments from both a tax, and a financial perspective. Depending on your situation, you might rely on four key strategies to improve your tax picture for 2016:

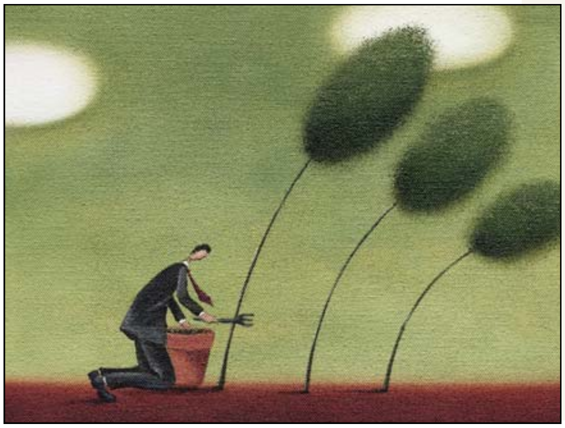
1. Capital loss harvesting: Capital losses can offset taxable capital gains, and if your losses for the year exceed your gains, you can use the excess to offset up to $3,000 of highly taxed ordinary income, such as the salary from your job. If you still have an excess loss, you can carry it over to next year and then perhaps even longer.

This presents some tax planning opportunities at the end of the year. For instance, if you've already realized a short-term capital gain that will be taxed at ordinary income rates, you could sell a holding at a loss to offset all or part of that gain.

2. Capital gain harvesting: On the flip side, you might use an existing loss on a securities sale to absorb the potential tax from a capital gain. For example, if you've taken a loss, you might harvest a short-term capital gain that otherwise would be taxed at ordinary income rates.

If you have a long-term capital gain (from selling an investment you've held longer than a year), you benefit from a maximum tax rate of 15%, even if you're in the regular 25%, 28%, 33% or 35% bracket. Those in the top 39.6% bracket pay a maximum 20% rate on long-term capital gains. And investors in the two lowest brackets of 10% and 15% pay 0% on long-term gains.

3. Wash sales: Under the wash sale rule, you aren't allowed to deduct a capital loss on the sale of securities if you acquire substantially identical securities within 30 days of the sale. For instance, if you sell mutual fund shares at a loss and buy back shares of the same fund two weeks later, you can't claim the loss.



In this case, all you have to do is wait at least 31 days before buying comparable securities. Alternatively, if it makes financial sense, you could buy the new shares right away and wait at least 31 days before selling the original shares.

4. NII tax: You could owe an additional 3.8% surtax that's applied to the smaller of your net investment income (NII) or the amount by which your modified adjusted gross income (MAGI) exceeds $200,000 for single filers and $250,000 for joint filers. The definition of NII includes most taxable income such as capital gains from securities sales.

To reduce your NII tax exposure, you might defer realizing capital gains until next year. And investments producing tax-free income, such as municipal bonds, are exempt from the NII calculation. ●

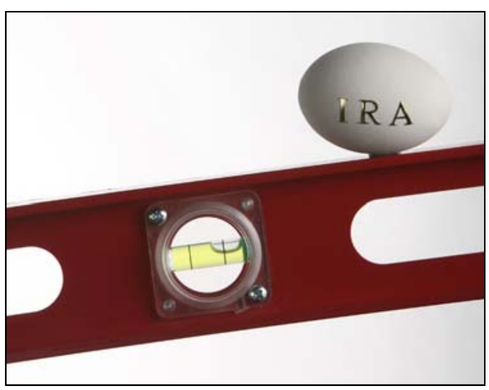
7 Retirement Ups And Downs

(Continued from page 1)

Security benefits, too, will be subject to tax if your income exceeds relatively low thresholds.

5. Your work earnings could go down. If you're like many soon-to-be retirees, you may plan to work at least part-time well into your 60s or perhaps your 70s and beyond. But there are no guarantees. The work you've been doing might dry up, or you may no longer be able to meet the physical or mental challenges of the job. And, even if you have been healthy until now, that too could change as you get older.

6. Your retirement assets could go down. Just because you figure that you have enough on hand to ensure a comfortable retirement doesn't mean that your nest egg won't be eroded. For one thing, you must start taking required minimum distributions (RMDs) from qualified plans and traditional IRAs after you reach age 70½. (RMD rules don't apply to Roth IRAs.) The amount of your distribution is based on your account balance in the prior year and your life expectancy. There's no way to get around this, but you can postpone RMDs from an employer-sponsored retirement plan until you retire if you're still working for the company with the plan and you don't own more than 5% of the business.



7. Your stress level could go up. Any or all of these pitfalls could give you a lot more to worry about than you expected. What's more, you now may have to take on more decisions about how to invest your assets and how to structure your withdrawals.

However, you don't have to shoulder these responsibilities alone. Your financial advisors can work with you to help you overcome potential problems. ●

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