The
FINANCIAL UPDATE

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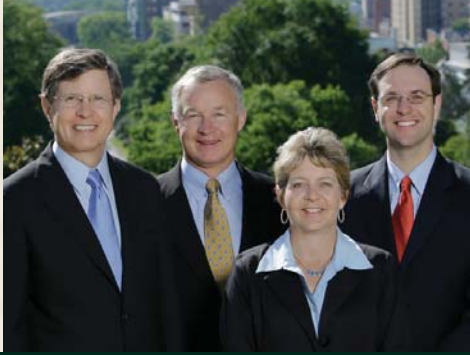
FEE-ONLY FINANCIAL PLANNING



Third Quarter 2017 NAPFA - Registered Financial Advisor (478) 474-7480

17 Year-End Moves That Can Preserve Your Tax Benefits

Barring any tax legislation that takes effect this year, your best overall tax strategy in 2017 is much as it would be in any year: to postpone receiving income that will be highly taxed and increasing deductions to offset current income. The less income you realize, the lower your bill. In that vein, here are 17 smart year-end tax moves to consider.

1. Harvest capital losses. If you sell securities at a loss before 2018, you can use those losses to offset gains from other sales—including those from selling stock or other holdings you've owned for a year or less. Those would otherwise be taxed at the high rates for ordinary income. Losses that exceed your gains can offset up to $3,000 of ordinary income, and you can deduct additional amounts in future tax years.

2. Harvest capital gains. Meanwhile, if you decide to take profits on securities you've owned for more than a year, the maximum tax rate on these long-term gains is 15%, or 20% if you're in the top tax bracket for ordinary income.

3. Max out on the 0% rate. Even better than the usual 15% or 20% tax rate on long-term gains, you can benefit from a 0% rate on long-term capital gains that applies to income in the 10% and 15% tax brackets. If you suffered a business loss this year or received less income than usual for another reason, there may no tax pain on your long-term gain.

4. Buy dividend-paying stocks. Most dividends are taxed at the same favorable tax rates as long-term capital gains. However, to qualify for this tax break, you have to have held the stock for at least 61 days.

5. Watch out for "wash sale rule." Under this rule, you're prohibited from deducting a loss from a securities sale if you acquire substantially identical shares within 30 days. The easiest way to stay out of trouble is to wait at least 31 days to buy similar holdings.

6. Minimize the NII surtax. A 3.8% surtax applies to 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, whichever is less. Keep those thresholds in mind as you consider ways to minimize your income for the year.

7. Give 'til it hurts. As long as you keep proper records, you generally can deduct charitable donations made as late as December 31, even if you use a credit card and aren't billed until next year. Special rules could limit this deduction.

8. Seek a Roth conversion. If you have funds in a traditional IRA, you could transfer the funds to a Roth IRA. You'll pay income tax on the amount you convert but future withdrawals are generally tax-free. So, you pay tax now to save later. Stretching out conversions over several years can reduce the tax bite.

9. Bulk up 401(k) contributions. By

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How Do Business Owners Become Seriously Wealthy?

Overwhelming evidence suggests they need to look beyond their businesses. They also need to focus on how they build, manage, and maximize their personal wealth—the assets they have outside of their companies.

Many of these investors reach a point where their financial needs and concerns outgrow the advice they've been receiving. Their goals are often diverse and complex, far beyond the understanding and skill of their current advisor.

One of the best ways to deal with this potentially goal-blocking situation of getting poor advice to is to get a second opinion.

At Day and Ennis, we have created a complimentary second-opinion service. We carefully review where you are now financially and talk with you about where you want to be. We may be able to confirm that you're on track to achieve your goals with your current financial advice provider. If needed, we suggest ways we can help, including recommending another provider if we are not the right fit for your needs.

Becoming seriously wealthy takes advanced planning. Contact us today to schedule a second opinion review.

Sincerely,
Day & Ennis, LLC

This Tax-Free Rollover Goes Right To Charity

The tax law provides a unique planning opportunity for retirees who have to take required minimum distributions (RMDs). You're allowed to transfer funds directly from your traditional IRA to a qualified charitable organization without paying any federal income tax on the distribution. Although the contribution isn't tax deductible, it does count toward your RMD for the year.

This tax break—sometimes called a "charitable rollover"—had expired and been reinstated several times. Thanks to the Protecting Americans from Tax Hikes (PATH) Act of 2015, however, the tax provision is now permanent.

Under the PATH Act, someone who's at least age 70½—the age at which RMDs must begin—can instruct an IRA custodian to move up to $100,000 of funds from that person's IRA to a favorite charity. A married couple can transfer up to $200,000, assuming their both old enough to begin taking RMDs.

Can't you accomplish the same result by taking a taxable IRA distribution and then donating that amount to charity? Not exactly. There are several other factors to consider, including annual limits on deductions for donations to charity, plus potential tax return complications. What's more, the direct rollover is valuable to non-itemizers who aren't eligible to deduct charitable contributions. And this method is simpler.

There are, however, a few more details to attend to with this approach. To qualify for the tax exclusion, the distribution must be made directly from the IRA trustee to a qualified charitable organization. You're not allowed to use the funds temporarily before transferring them to the charity's coffers.

In addition, the contribution must otherwise qualify as a charitable donation. If the deductible amount decreases because of a benefit received in return — for example, the value of a dinner at a fundraiser — or the deduction would not be allowed due to inadequate substantiation, you can't take the exclusion.

A bonus is that you're required to start taking RMDs in the year after the year in which you turn age 70½. If you take a charitable rollover, you can meet this obligation without paying the usual tax on an IRA distribution.

This tax law provision also applies to Roth IRAs, though it may not be advisable to take this approach with a Roth. Roth IRA distributions to account holders over age 59½ are usually tax-free, and it doesn't make sense to use money that isn't taxed to make a donation that isn't deductible. But a portion of a distribution may be taxable if your Roth hasn't been in existence for at least five years. In that case, it might be reasonable to transfer the taxable amount directly to a charity. ●

Watch Out For "Grandparent Scams"

It started innocently enough. Bill Frielander picked up the phone one recent morning at around 10 am. The person on the line said, "Hi Grandpa, it's Jason." To Bill, the voice sounded close enough to his grandson's that he didn't worry. The two chatted amiably a few minutes about family and school and nothing else in particular.

But then "Jason" dropped the hammer. He told Bill that he had been in a drunk driving accident in a neighboring state. Someone else had been injured and Jason needed $1,950 to keep his name out of the records. An attorney who was supposedly advising him could make it all go away for that fee. But Jason said he needed the money right away and that he was afraid to tell his parents. And he asked that Bill not tell anyone else about it because he was ashamed.

Bill was almost convinced and ready to ante up. But when the caller requested the money, there was something about his voice that made Bill pause. He had his wife call Jason's personal cellphone from her own phone while Bill was still talking to the person asking for money. It turned out Jason was safely at home, hadn't left the state in weeks and had not been in any accident. When Bill confronted the caller with this information, the imposter quickly hung up.

Bill was fortunate that he didn't fall for this "grandparent scam," but many others haven't been as lucky.

Key Components Of A Post-Divorce Estate Plan

Even the best-laid plans can go astray if you get divorced from a long-time spouse. Especially if you go your separate ways after raising children and acquiring property together, your estate plan may need to be revised, and pronto.

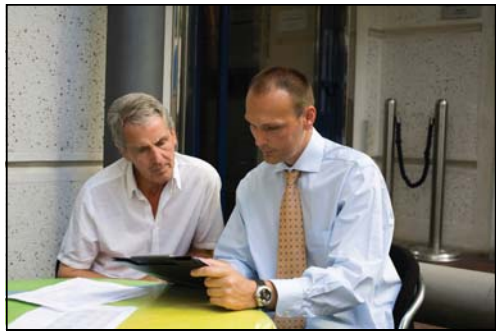
Frequently, the main objective in a divorce is to keep assets away from the ex-spouse while preserving wealth for the children. But this can become complicated when one or more of the children are still minors. Typically, your kids will be next in line to receive assets under your will.

What are the potential problems? Although a divorce generally erases the rights of an ex-spouse under a will, property going to minors will be held in a conservatorship until the age of majority in the state where you reside—usually, age 18. And, if your ex-spouse is the conservator, he or she may have more control over your assets than you would have liked. A court will supervise the conservator, but that person still has considerable discretion over what happens to property.

Other problems may arise if a child doesn't have the financial knowledge and expertise to manage assets after reaching the age of majority. A good chunk of your accumulated wealth could be squandered through spending sprees or bad investments.

But you don't have to stand pat and just let things play out. You can update your estate plan by creating or modifying one or more trusts. You also might eliminate or revise other trusts that had your ex-spouse playing a pivotal role. If the trust allows it, you might simply replace your former spouse with another person.

With a trust that you create, you get to name the person you want to be in charge as the trustee. This person will be responsible for managing investments in the trust, distributing funds as needed, and other related financial duties. The trustee you choose should be someone you trust—a family member, friend, or a financial advisor or institution.



A trust may have one principal purpose—for example, to limit the ability of children to withdraw funds—or several, and a main goal may be to minimize taxes under federal estate tax rules (as well as state inheritance taxes in some cases). These five types of trusts could be helpful as part of your estate plan—but may need to be modified if you get divorced.

1. Revocable living trusts: You can be the sole trustee during your lifetime and designate a successor upon incapacity or death. Thus, you'll retain a high level of control while you're alive. You may sell trust assets, amend the terms of the trust, or revoke it entirely. Generally, the trust becomes irrevocable when you die.

2. Life insurance trusts: Life insurance proceeds paid out from a policy that has you as the insured person are exempt from estate tax only if you don't possess any "incidents of ownership" (for example, the right to change beneficiaries) in the policy. To avoid dire tax results, you could set up an irrevocable life insurance trust (ILIT) and transfer complete ownership of the policy to the ILIT.

3. Bypass trusts: As the name implies, a bypass trust (also called a "credit shelter trust") is established so that funds can bypass your spouse's estate on their way to your children. Because the trust effectively can use the full estate tax exemption for each spouse, it enables a married couple to transfer millions of dollars without paying any federal estate tax.

4. Q-Tip trusts: With a qualified terminable interest property (Q-tip) trust, a surviving spouse must receive all the income, but not principal, and the children can receive the remainder upon the surviving spouse's death. This trust is often used to defer estate tax until the second death.

5. Spendthrift trusts: This type of trust is designed to protect against creditors (including a spouse you have divorced or are divorcing).

Finally, you may also use a trust for your own benefits, in lieu of a prenuptial agreement, to protect your own interests in the event you remarry. ●

Scammers are able to find out personal information and sound enough like the people they are impersonating to be believable. They target elderly people and pull on their heartstrings with a story about needing cash in a hurry.

If you get a call that sounds suspicious, the worst thing you can do is to help out the caller by referring to other confidential information (for example, the names and locations of other family members). Here's what the Federal Trade Commission (FTC) advises:

- Resist the urge to act immediately no matter how desperate the caller's plight appears to be.
- Verify the person's identity by asking questions a stranger couldn't answer.
- Call a phone number for your grandchild that you know is legitimate.
- Check out the story with trusted family members or friends even if you've been told to "keep it a secret."
- Don't wire money, send a check or money order, or use an overnight delivery service or courier to get cash to your "grandchild."
- Finally, the FTC advises consumers to report the incident at ftc.gov/complaint or call 877-FTC-HELP. ●

Five Retirement Questions To Answer

How much money do you need to save to live comfortably in retirement? Some experts base estimates on a multiple of your current salary or income, while others focus on a flat amount such as a million dollars. Either way, the task can be daunting.

But there is no magic formula and every situation is different. What's more, your definition of "comfortable" could be different than someone else's. Maybe a better approach is to answer these five basic questions:

Q. What will your expenses be?

It's almost impossible to figure out what you need to save if you don't know what you'll be spending. Draw up a monthly budget based on what you think might happen. If you downsize your home or won't have to spend as much on clothes as you do now, you may spend somewhat less in retirement. But you also might travel more and make greater outlays for leisure pursuits. Just don't expect your expenses to be dramatically lower in retirement than they are now.

Q. How long will your nest egg have to last?

This requires you to analyze several factors, including your age, medical condition, and family history. No one can predict the future, so it's usually best to plan for the worst and hope for the best. And with life expectancies on the rise, it becomes easier and easier to outlive your savings.

Q. How are you investing your savings?

It's not just how much you save that counts, it's also what you do with that money. If you invest wisely, reflecting your personal comfort level with investment risk, you may be able to stretch your savings longer. Of course, no one knows for sure how the markets will perform, but the independent research firm Morningstar projects that savings of about $1.18 million invested at 6% annually (with a 2.5% inflation rate) will provide annual income of $40,000 for 30 years. Naturally, your needs may differ.

Q. How will taxes affect your investments?

Don't forget to factor future taxes into the equation. Long-term capital gains currently are taxed for most people at a 15% rate, while those in the top ordinary income tax bracket pay 20%. But income from some investments—including municipal bonds and muni bond funds—is exempt from federal income tax. Also, remember that the tax law requires you to start taking minimum distributions from most retirement plans after age 70½.

Q. What can I do now to avoid problems?

If you're still working, you could boost your savings, utilizing tax-advantaged retirement accounts such as 401(k) plans. The compounding of the money inside your plan can help you catch up in meeting your retirement goal. In addition, you might consider postponing your retirement until you've saved enough. ●

Preserve Your Tax Benefits

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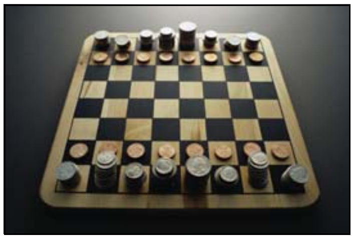
increasing deferrals to a 401(k) plan, you reduce your taxable income. For 2017, you can defer up to $18,000 ($24,000 if you're 50 or older). Your contributions accumulate without current tax.

10. Avoid RMD penalties. If you're over age 70½, you usually must take required minimum distributions (RMDs) from employer retirement plans and traditional IRAs each year. The penalty is 50% of the required amount if you miss the December 31 deadline.

11. Donate stock to charity. You can deduct the fair market value of stock donated to charity if you've owned it more than a year. That can be a good way to sidestep taxes on shares that have appreciated.

12. Sidestep the AMT. Certain types of "tax preferences" may increase what you owe under the alternative minimum tax (AMT) calculation. If it otherwise makes sense, try to postpone preferences to 2018.

13. Bunch medical expenses. Generally, you can deduct medical expenses only to the extent that they exceed 10% of your adjusted gross income (AGI). When possible, shift expenses to the tax year you expect to clear the AGI hurdle.



14. Shift family income. If you transfer taxable investments to a child taxed at a lower rate, your family may pay less overall. However, investment income of more than $2,100 received by a dependent child in 2017 may be taxed at your top tax rate.

15. Use installment sale method. You can normally defer tax on the sale of real estate if you take payments over two years or longer.

16. Pay next semester's tuition. If you qualify, college tuition paid in 2017 may result in a tuition deduction or a higher education credit, depending on your situation. But these tax breaks are phased out for high-income parents.

17. Get in the holiday spirit. Finally, you can give each family member up to $14,000 this holiday season without owing any gift tax. Using this annual exclusion also reduces the size of your taxable estate. ●

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