Center for **Financial Planning**, Inc.®

2016

Dear Clients and Friends of The Center,

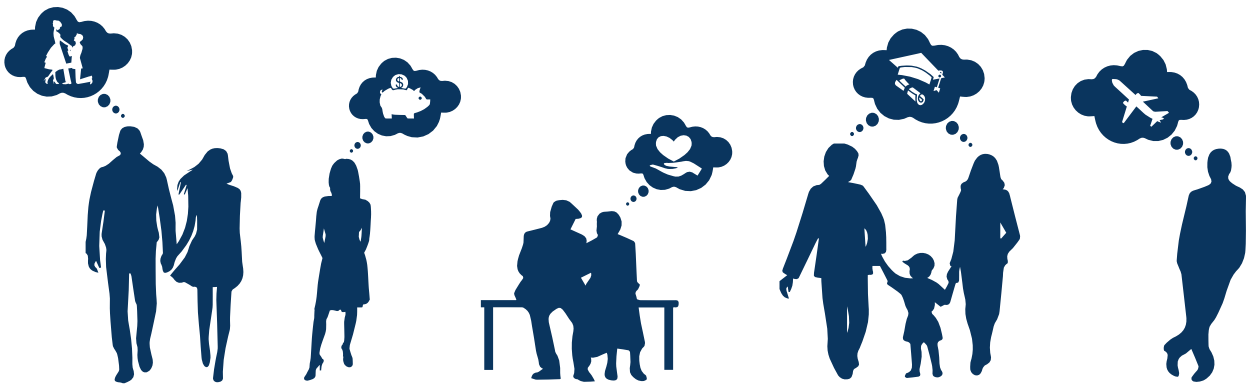
If you are like us, the end of the year is a natural time to reflect and take stock. Year-end planning also provides the opportunity to develop a sound business plan for your new year. As we close the books on 2016 and plan for 2017, we want to make sure you have the time to keep your financial house in order.

With this planning guide, you can review the areas of your financial life. This guide is intended to organize a year-end review. We have included timely updates and age-old advice so that you can easily personalize a year-end action plan. Use our personal planner at the end of this guide to note your action steps and organize your 2017 financial vision.

Feeling overwhelmed with the year-end planning process? You are always the captain of your personal financial situation, but your financial planner can help organize and plan for your needs. Reach out to us if you have questions on any topics or would like to review your personal financial situation. We look forward to the conversation.

All the Best,
Your Center Team

Live YOUR Plan™



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Center for **Financial Planning**, Inc.®

YEAR-END PLANNING OPPORTUNITIES

These important tax and financial planning moves can help prepare you for the upcoming tax season and better align your portfolio with your short- and long-term goals.

KEY TAKEAWAYS

While tax and financial planning should take place all year long, there are several actionable strategies to consider before year-end IRS deadlines.

Important life events can have financial implications and should be discussed with your tax and financial advisors.

Certain investments generate more taxable distributions than others, so work with your advisor and tax professionals to evaluate your investments and after-tax returns.

WORK WITH THE CENTER

Get organized
Collect all important tax and financial documents to prepare for a thorough year-end review.

Make necessary adjustments
Think strategically about what changes need to be made to best position you to achieve your goals.

Meet Annually
Discuss all aspects of your financial life, including any major changes you anticipate.

Take action
And do so before year-end.

KEY DATES TO REMEMBER

2016

NOV 01..... Submit the FAFSA 2017-2018 form for college enrollment 7/1/17-6/30/18 using your 2015 income and tax information

NOV 30..... Review the tax impact of your investments

DEC 07..... Last day to make changes to your Medicare health or prescription drug coverage

DEC 31*..... Last day to sell securities to realize a gain or loss

DEC 31*..... Last day to establish a qualified retirement plan for 2016 (SEP IRA plans may be established until the tax-filing deadline (April 15th) plus extension

DEC 31*..... Last day to complete charitable contributions for 2016 (be sure to allow enough time to complete donations that may require additional lead time, such as gifting appreciated securities

2017

JAN 15 ..... Estimated tax payment due

FEB 01 ..... Deadline for employers to send W-2s/1099s to individuals

FEB 17 ..... Deadline for financial institutions to send 1099s to individuals (delayed 1099s will be sent 30 days after)

APR 15..... Deadline to file individual income tax return or file for an extension with the IRS

APR 15..... Last day to contribute to traditional and Roth IRAs for 2016

APR 15..... Estimated tax payment due

JUN 15 ..... Estimated tax payment due

JUN 30 ..... Deadline to submit the FAFSA 2016-2017 form for college enrollment 7/1/16-6/30/17

SEP 15 ..... Estimated tax payment due

OCT 01..... Last day to establish a SIMPLE IRA plan

OCT 01..... Submit the FAFSA 2018-2019 form for college enrollment 7/1/18-6/30/19 using your 2016 income and tax information

OCT 15..... Deadline to file and pay your 2016 personal income tax return if you received an extension

OCT 15..... Deadline to recharacterize 2016 Roth IRA conversions

OCT 15..... Medicare Annual Election Period opens

November 2016

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

December 2016

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11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

January 2017

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15	16	17	18	19	20	21
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29	30	31				

February 2017

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12	13	14	15	16	17	18
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March 2017

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26	27	28	29	30	31	

April 2017

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16	17	18	19	20	21	22
23	24	25	26	27	28	29

May 2017

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28	29	30	31			

June 2017

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July 2017

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16	17	18	19	20	21	22
23	24	25	26	27	28	29

August 2017

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20	21	22	23	24	25	26
27	28	29	30	31		

September 2017

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17	18	19	20	21	22	23
24	25	26	27	28	29	30

October 2017

S	M	T	W	T	F	S
1	2	3	4	5	6	7
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15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

*December 31, 2016 falls on a Saturday, so keep in mind some transactions may need to occur by December 30, 2016.

FINANCIAL PLANNING

1. **Identify your personal goals.** Studies have proven that when you write down what's important to you and you plan, good things usually happen. Whether the goals are related to your finances, career or family, having them in place and capturing them helps us to get where we want to be.

2. **Discuss important life changes with tax and financial professionals.** Whether you expect a new addition to the family or want to build a new addition to your house, they can help you with the financial implications. When it comes to your financial plan, what is most critical is establishing your short- and long-term goals, planning accordingly and stress testing your plan under different scenarios. As this is an ongoing process, make some time throughout the year to have planning conversations with your financial advisor.

3. **Stay organized and proactive.** Put your tax return and supporting records in a safe place. This can ease the process when you apply for a home loan or financial aid, or when you need a guide for filing next year's taxes.

   Completing these items first, then taking advantage of some of the strategies in this guide, and reviewing regularly will set the framework for a successful financial plan.

MAJOR LIFE EVENTS

Birth	Divorce
Death	Job Changes
Marriage	Inheritance
Retirement	

INCOME TAX PLANNING

1. **Determine if it makes sense to accelerate or defer income** (e.g., a bonus, severance or retirement payments).

> **TIP:** Deferred compensation strategies in qualified plans, such as a 401(k), and non-qualified plans, like a supplemental employee retirement plan (SERP), are an excellent way to defer or minimize income taxes over the long term. You can defer compensation into future years when your income may be lower, you may have more deductions or tax rates may be lower due to legislative changes.

2. **Evaluate your income sources to reduce the overall tax impact.**

INCOME TYPE	TAXATION
Earned income	Marginal income tax rate
Corporate bonds	Marginal income tax rate
Qualified dividends	Long-Term capital gains rate
Municipals	Exempt from federal and in many cases state income taxes in their state of issue*

3. **Review income for adjustment to estimated payments.** With your income picture for the year more clear, coordinated conversations with your CPA and financial planner can help you to prepare and plan for tax obligations in current and future years.

4. **Work with your financial and tax advisors to determine when you should realize long-term gains and/or harvest capital losses.** Offset investment gains with losses, as appropriate, to reduce your overall tax liability, including the new Medicare surtax. However, be aware of "wash sale" rules**. Intentionally selling positions with a capital gain, a strategy known as "gain harvesting" could also make sense for those in the 15% bracket. Doing so could potentially re-set the client's cost basis and effectively pay $0 in capital gains tax.

5. **Consider establishing a securities-based line of credit (SBLC***)** as a tool to cover unexpected expenses, intra family loans or provide a form of bridge financing just to name a few.

> **TIP:** By borrowing from a SBL, you can delay the need to sell assets that may generate capital gains and perhaps obtain a lower borrowing interest rate compared to banks or credit unions.

*While interest on municipal bonds is generally exempt from federal income tax, keep in mind that it may be subject to the federal alternative minimum tax, state or local taxes. Profits and losses on federally tax-exempt bonds may be subject to capital gains tax treatment. In addition, certain municipal bonds (such as Build America Bonds) are issued without a federal tax exemption, which subjects the related interest income to federal income tax. Dividends are not guaranteed and will fluctuate.

** Please see the explanation of the wash sale rule on page seven.

***Margin or a securities based line of credit may not be suitable for all clients. Borrowing on securities based lending products and using securities as collateral may involve a high degree of risk. Market conditions can magnify any potential for loss. If the market turns against the client, he or she may be required to deposit additional securities and/or cash in the account(s) or pay down the loan. The securities in the pledged account(s) may be sold to meet the margin call, and the firm can sell the client's securities without contacting them. The interest rates charged for a securities based line of credit are determined by the market value of pledged assets and Capital Access. The interest rates charged for margin are determined by the amount borrowed. For additional information on margin, visit http://sec.gov/investor/pubs/margin.htm.

PAPER WORK

Here are a few documents you'll need to get organized while tax planning.

- ☐ Copies of 2014 and 2015 income tax returns
- ☐ W-2/1099s from your employer(s)
- ☐ Brokerage statements (1099-B) and any statements showing investment purchase/sale dates
- ☐ Dividend and interest statements (1099-DIV, 1099-INT and 1099-OID)
- ☐ Social Security statement (1099-SSA) and/or retirement distributions (1099-R), if applicable
- ☐ Statements reporting profits from partnerships, trusts and small businesses (K-1), if applicable
- ☐ Mortgage interest statements (1098)
- ☐ Student loan interest statements (1098-E), if applicable
- ☐ Information on Health Insurance (1095 A, B, or C).

RECEIPTS OR PROOF OF:

- ☐ Charitable gifts
- ☐ Medical/dental expenses
- ☐ Moving expenses
- ☐ Daycare/childcare costs
- ☐ Education expenses
- ☐ Non Reimbursed business expenses

TAX-DEFERRED GROWTH OPPORTUNITIES*

QUALIFIED PLANS

Defer up to $18,000 a year, $24,000 if you're age 50 or over, into a 401(k), 403(b) or 457 plan.

INDIVIDUAL RETIREMENT ACCOUNTS

You may be able to deduct IRA contributions, even if you participate in a retirement plan at work, if your modified adjusted gross income (MAGI) is less than $71,000 for single filers or $118,000 for joint filers. The maximum contribution to a traditional or Roth IRA in 2016 is $5,500; $6,500 if you're age 50 or over.

ANNUITIES

Annuities offer an opportunity for tax-deferred growth on assets.

*Any withdrawals may be subject to income taxes and prior to age 59 1/2, a 10% federal penalty tax and state penalty taxes may apply to the taxable amount.

INVESTMENT PLANNING

1. **Review your asset allocation to ensure it is still geared toward your goals and tolerance for risk.** As life progresses and changes occur, it's important to make sure the way your portfolio is allocated is still aligned with your personal situation. For many, this means reducing risk as retirement gets closer. Many clients are often times surprised to see how aggressive their accounts are invested, so it's essential to have a firm grip on your overall risk tolerance and make sure your portfolio is allocated accordingly.

2. **Consider rebalancing your portfolio** to include more tax-advantaged investments, such as municipal bonds or dividend paying stocks, especially for those in higher tax brackets.

   > **TIP:** When rebalancing, consider investing new money into the account instead of selling certain investments to avoid unnecessary capital gain taxes.

3. **Review your portfolio's tax efficiency.** Simply put, tax efficiency is measured by how much of an investment's return remains after taxes are paid. Certain investments generate more taxable distributions than others. Work with your advisor and accountant to evaluate your investments and after-tax returns. Make sure you also review your brokerage accounts' cost basis method as well for an optimal tax strategy.

"WASH SALE" RULES

You can't deduct capital losses on the sale of a particular security if you initiate a similar position within a 61-day period.

Asset allocation does not ensure a profit or guarantee against loss. Rebalancing a non-retirement account could be a taxable event that may increase your tax liability.

RETIREMENT PLANNING

1. **Review portfolio withdrawals and update your retirement analysis** on a regular basis. Successful retirement planning is supported by regular review of your personal situation.

2. **Maximize your retirement contributions** to take advantage of tax-deferred growth if you're still working. Many companies allow you to arrange automatic contributions each pay period.

3. **Evaluate the benefit of a Roth conversion.** Though Roth IRAs have the potential to grow tax-free and withdrawals aren't mandatory during the lifetime of the original owner, a conversion to a Roth IRA results in taxation of any untaxed amounts in the Traditional IRA from which you're converting.

   TIP: Be sure to discuss the pros and cons with your financial advisor and tax professional.

4. **Determine if you need to take required minimum distributions** from your retirement plan accounts or IRAs. For those who are charitably inclined, the "qualified charitable distribution" tax rule just became permanent. It allows traditional IRA owners over age 70.5 to donate up to $100,000 of their required minimum distributions to qualified charitable organization.

5. **Know your options for claiming Social Security benefits.** Social Security will be a major component of their overall retirement spending. Electing the proper filing strategy can be critical. This is an area we spend a great deal of time on with clients and encourage you to do the same before filing for benefits.

ESTATE, LEGACY, AND CHARITABLE GIVING

1. **Review and update estate plans and documents.** This also includes the titling on all of your accounts and property, as well as beneficiary designations to ensure they reflect your current wishes and family dynamics.

2. **Capitalize on the annual $14,000 single / $28,000 married gift tax exclusion.** The lifetime exemption for single filers was raised to $5.45M.

3. **Organize a family meeting.** Thoughtful communication with your family is an important part of multi-generational planning. Talk to your family about money, your estate plan, and family legacy. Don't let legal documents shadow your own voice when it comes to defining your estate.

CHARITABLE GIVING TIPS

Charitable giving can reduce your tax burden and also can provide a sense of satisfaction by benefiting your favorite causes.

- **Qualified Charitable Distribution (QCD)** is now permanent for Traditional IRA owners over the age of 70 1/2.
- Establish a **donor advised fund** to make future donations and claim the current income tax deduction.
- Give **appreciated securities** that you've held for more than 12 months to avoid capital gains and reduce or eliminate net investment income.
- Coordinate estate plan for sophisticated **charitable trusts** for very large gifts.

EDUCATION PLANNING

1. **Have an education funding plan,** which includes 529s, Coverdell Education Savings Accounts, and to a lesser degree UTMA accounts, which offer wider investment options but fewer tax benefits and less control. If you haven't already established one of these accounts, consider doing so now and contributing a gift before year-end. If you have, consider fully funding existing education savings accounts, preferably in a tax-deferred plan, for your children or grandchildren. Starting early and saving often may be your best bet. Old savings bonds could also potentially be a good way to help pay for school.

   TIP: Consider "super funding" your 529 plan account. Take full advantage of the $14,000 annual gift tax exclusion amount by gifting into a 529 account before year-end. For married couples, the gift tax exclusion amount is $28,000.

2. **Strategize how you pay tuition to optimize your tax credits.** Paying tuition directly to the University for Grandchildren or other relatives does not count towards one's annual gift exclusion ($14,000 for a single person, $28,000 for married couples). It's also important to be cognizant of education tax credits your family is eligible for and planning accordingly to optimize these dollar for dollar reductions of tax liability.

3. **File your FAFSA (Federal Student Aid Form) as early as possible.** Changes in law now make it easier and allow parents to file the FAFSA for their child. Check out the graphic below that illustrates these changes in greater detail.

CHANGES TO THE FAFSA® PROCESS FOR 2017–18

SUBMIT A FAFSA EARLIER:

Students will be able to submit a 2017–18 FAFSA as early as Oct. 1, 2016, rather than beginning on Jan. 1, 2017. The earlier submission date will be a permanent change, enabling students to complete and submit their FAFSAs as early as October 1 every year. (There is NO CHANGE to the 2016–17 schedule. The 2016–17 FAFSA became available Jan. 1, 2016.)

USE EARLIER INCOME AND TAX INFORMATION:

Beginning with the 2017–18 FAFSA, students will report income and tax information from an earlier tax year. For example, on the 2017–18 FAFSA, students (and parents, as appropriate) will report their 2015 income and tax information, rather than their 2016 income and tax information.

Here's a summary of key dates for submitting the FAFSA depending on when you plan to go to school:

IF YOU PLAN TO ATTEND COLLEGE FROM	YOU WILL SUBMIT THIS FAFSA	YOU CAN SUBMIT THE FAFSA FROM	USING INCOME AND TAX INFORMATION FROM
July 1, 2016–June 30, 2017	2016–17	January 1, 2016–June 30, 2017	2015
July 1, 2017–June 30, 2018	**2017–18**	**October 1, 2016–June 30, 2018**	**2015**
July 1, 2018–June 30, 2019	2018–19	October 1, 2017–June 30, 2019	2016

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

StudentAid.gov/fafsa

HEALTH CARE

1. **Medicare open enrollment** began on October 15, 2016 and runs through December 7, 2016. Supplemental plans change each and every year so be sure to evaluate your plan to see if a change is warranted. At The Center, we partner with a Medicare specialist to assist clients in this arena and are here to help if needed.

2. **Affordable Care Act health plans** are designed for those who do not have access to health insurance in the workforce and depending on income, premiums could be dramatically reduced. Open enrollment began on November 1, 2016 and runs through January 31, 2017.

3. **Health Savings Accounts (HSAs)** can be a fantastic tool to utilize if you have a high-deductible health care plan. Funds contributed to the account receive a tax deduction and distributions are tax-free if used to pay for qualified medical expenses. You also have the option to invest the funds within an HSA to pay for future medical expenses.

4. **Have a game plan for a long-term care event.** Insurance coverage is expensive but vital in many cases in one's overall financial game plan. However, if self-insuring is the preferred route, having a game plan of how a family will pay for the cost out-of-pocket is critical.

HEALTH SAVINGS ACCOUNTS

A savings and investment account used with high deductible insurance plans can provide tax-deferred growth for current or future health-related expenses.

Long Term Care insurance policies have exclusions and/or limitations. The cost and availability of Long Term Care insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of Long Term Care insurance. Guarantees are based on the claims paying ability of the insurance company.

BUSINESS OWNERS

1. **Think about how you'd like to expand or improve your business** in the next 12 months. Whether it's an acquisition or new equipment, there will be financial implications and tax considerations involved. Spend adequate time budgeting, writing a vision of where you see the company headed, get the conversation going regarding succession planning and think about your current and future growth targets just to name a few.

2. **Consider establishing and contributing to a retirement plan like a SEP-IRA, Solo 401(k) or SIMPLE IRA. Drafting the right type of retirement plan is important to ensure the business is able to defer sufficient dollars for retirement which in turns help mitigate taxes and can help to retain quality employees.**

> **TIP:** Consider implementing a Defined Benefit (DB) pension plan as well as a retirement option to accelerate and increase retirement savings. Many clients are able to save substantial funds into a DB plan which can help save the business owner in taxes and help fund retirement. These plans are especially powerful for those nearing retirement and who have businesses with 20 or less employees.

COMPANY RETIREMENT PLANS

SEP-IRA

Solo 401(k)

SIMPLE IRA

Defined Benefit Plan

PERSONAL PLANNER + ACTION ITEMS WORKSHEET

- ☐ **REVIEW Key Dates to Remember** and add the ones that apply to you to your personal calendar.
- ☐ **GOALS:** What do I want to accomplish this year?

1. _____
2. _____
3. _____
4. _____
5. _____

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Notes: _____