Your Financial Future

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Every penny counts! This is why I think that the articles in this newsletter can help in claiming those pennies (and dollars!).

For some people, there is ample income to cover all expenses. But for most, it takes effort to understand what one's true income is AFTER ALL taxes and how that effects your ability to cover all of the expenses that occur in the day to day life in Silicon Valley. If you are not sure, with the 1040 in hand and your w-2s, come in and see me. We'll do a quick assessment of where you are.

Divorcing or know someone who is? I am teaching the Divorce Options Class on Saturday - April 15th 10am to 1pm. Held at 3880 S. Bascom Ave 2nd Floor Conf. rm. Check out nocourt.org. Need help with the financial picture during the settlement stages? I work as an advocate or as a neutral depending upon the process you choose. Give me a call!

Kind regards,

Pam

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Four Ways to Double the Power of Your Tax Refund

The IRS expects that more than 70% of taxpayers will receive a refund in 2017.[1] What you do with a tax refund is up to you, but here are some ideas that may make your refund twice as valuable.

Double your savings

Perhaps you'd like to use your tax refund to start an education fund for your children or grandchildren, contribute to a retirement savings account for yourself, or save for a rainy day. A financial concept known as the Rule of 72 can give you a rough estimate of how long it might take to double what you initially save. Simply divide 72 by the annual rate you hope that your money will earn. For example, if you invest your tax refund and it earns a 6% average annual rate of return, your investment might double in approximately 12 years (72 divided by 6 equals 12).

This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent the performance of any specific investment. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included.

Split your refund in two

If stashing your refund away in a savings account or using it to pay bills sounds unappealing, go ahead and splurge on something for yourself. But remember, you don't necessarily have to spend it all. Instead, you could put half of it toward something practical and spend the other half on something fun.

The IRS makes splitting your refund easy. When you file your income taxes and choose direct deposit for your refund, you can decide to have it deposited among two or even three accounts, in any proportion you want. Qualified accounts include savings and checking accounts, as well as IRAs (except SIMPLE IRAs), Coverdell Education Savings Accounts, health savings accounts, Archer MSAs, and TreasuryDirect® online accounts. To split your refund, you'll need to fill out IRS Form 8888 when you file your federal return.

Double down on your debt

Using your refund to pay down credit card debt or a loan with a high interest rate could enable you to pay it off early and save on interest charges. The time and money you'll save depend on your balance, the interest rate, and other factors such as your monthly payment. Here's a hypothetical example. Let's say you have a personal loan with an $8,000 balance, a 12% fixed interest rate, and a 24-month repayment term. Your fixed monthly payment is $380. If you were to put a $4,000 refund toward paying down your principal balance, you would be able to pay off your loan in 12 months and save $780 in interest charges over the remaining loan term. Check the terms of any loan you want to prepay, though, to make sure that no prepayment penalty applies.

Be twice as nice to others

Giving to charity has its own rewards, but Uncle Sam may also reward you for gifts you make now when you file your taxes next year. If you itemize, you may be able to deduct contributions made to a qualified charity. You can also help your favorite charity or nonprofit reap double rewards by finding out whether your gift qualifies for a match. With a matching gift program, individuals, corporations, foundations, and employers offer to match gifts the charitable organization receives, usually on a dollar-for-dollar basis. Terms and conditions apply, so contact the charitable organization or your employer's human resources department to find out more about available matching gift programs.

[1]IR-2017-01, irs.gov

Converting Retirement Savings to Retirement Income

Regardless of which path you choose with your retirement accounts, keep in mind that generally, you'll be required to begin taking minimum distributions from employer-sponsored plans and traditional IRAs in the year you reach age 70½; you can delay your first distribution as late as April 1 of the following year.

Taxable distributions from traditional employer-sponsored plans and IRAs prior to age 59½ may be subject to a 10% penalty tax, unless an exception applies.

Different rules apply to Roth accounts. For information on how Roth accounts may fit into your retirement income picture, talk to a financial professional.

You've been saving diligently for years, and now it's time to think about how to convert the money in your traditional 401(k)s (or similar workplace savings plans) into retirement income. But hold on, not so fast. You may need to take a few steps first.

Evaluate your needs

If you haven't done so, estimate how much income you'll need to meet your desired lifestyle in retirement. Conventional wisdom says to plan on needing 70% to 100% of your annual pre-retirement income to meet your needs in retirement; however, your specific amount will depend on your unique circumstances. First identify your non-negotiable fixed needs — such as housing, food, and medical care — to get clarity on how much it will cost to make basic ends meet. Then identify your variable wants — including travel, leisure, and entertainment. Segregating your expenses into needs and wants will help you develop an income strategy to fund both.

Assess all sources of predictable income

Next, determine how much you might expect from sources of predictable income, such as Social Security and traditional pension plans.

Social Security: At your full retirement age (which varies from 66 to 67, depending on your year of birth), you'll be entitled to receive your full benefit. Although you can begin receiving reduced benefits as early as age 62, the longer you wait to begin (up to age 70), the more you'll receive each month. You can estimate your retirement benefit by using the calculators on the SSA website, ssa.gov. You can also sign up for a *my* Social Security account to view your Social Security Statement online.

Traditional pensions: If you stand to receive a traditional pension from your current or a previous employer, be sure to familiarize yourself with its features. For example, will your benefit remain steady throughout retirement or increase with inflation? Your pension will most likely be offered as either a single life or joint-and-survivor annuity. A single-life annuity provides benefits until the worker's death, while a joint-and-survivor annuity generally provides reduced benefits until the survivor's death.[1]

If it looks as though your Social Security and pension income will be enough to cover your fixed needs, you may be well positioned to use your other assets to fund those extra wants. On the other hand, if your predictable sources are not sufficient to cover your fixed needs, you'll need to think carefully about how to tap your retirement savings plan assets, as they will be a necessary component of your income.

Understand your savings plan options

A key in determining how to tap your retirement plan assets is to understand the options available to you. According to the Government Accountability Office (GAO), only about one-third of 401(k) plans offer withdrawal options, such as installment payments, systematic withdrawals, and managed payout funds.[2] And only about a quarter offer annuities, which are insurance contracts that provide guaranteed income for a stated amount of time (typically over a set number of years or for the life expectancy of the participant or the participant and spouse).[3]

Plans may allow you to leave the money alone or require you to take a lump-sum distribution. You may also choose to roll over the assets to an IRA, which might offer a variety of income and investment opportunities, including the purchase of annuity contracts. If you choose to work part-time in retirement, you may be allowed to roll your assets into the new employer's plan.

Determining the right way to tap your assets can be challenging and should take into account a number of factors. These include your tax situation, whether you have other assets you'll use for income, and your desire to leave assets to heirs. A financial professional can help you understand your options.

[1]Current law requires married couples to choose a joint-and-survivor annuity unless the spouse waives those rights.

[2]"401(k) Plans: DOL Could Take Steps to Improve Retirement Income Options for Plan Participants," GAO Report to Congressional Requesters, August 2016

[3]Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity. Qualified annuities are typically purchased with pre-tax money, so withdrawals are fully taxable as ordinary income, and withdrawals prior to age 59½ may be subject to a 10% penalty tax. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing insurance company. It is important to understand that purchasing an annuity in an IRA or an employer-sponsored retirement plan provides no additional tax benefits other than those available through the tax-deferred retirement plan.

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Spring Cleaning Your Finances

The arrival of spring often signifies a time of renewal, a reminder to dust off the cobwebs and get rid of the dirt and grime that have built up throughout the winter season. And while most spring cleaning projects are likely focused on your home, you could take this time to evaluate and clean up your personal finances as well.

Examine your budget..and stick with it

A budget is the centerpiece of any good personal financial plan. Start by identifying your income and expenses. Next, add them up and compare the two totals to make sure you are spending less than you earn. If you find that your expenses outweigh your income, you'll need to make some adjustments to your budget (e.g., reduce discretionary spending).

Keep in mind that in order for your budget to work, you'll need to stick with it. And while straying from your budget from time to time is to be expected, there are some ways to help make working within your budget a bit easier:

- Make budgeting a part of your daily routine
- Build occasional rewards into your budget
- Evaluate your budget regularly and make changes if necessary
- Use budgeting software/smartphone applications

Evaluate your financial goals

Spring is also a good time to evaluate your financial goals. Take a look at the financial goals you've previously set for yourself — both short and long term. Perhaps you wanted to increase your cash reserve or invest more money toward your retirement. Did you accomplish any of your goals? If so, do you have any new goals you now want to pursue? Finally, have your personal or financial circumstances changed recently (e.g., marriage, a child, a job promotion)? If so, would any of these events warrant a reprioritization of some of your existing financial goals?

Review your investments

Now may be a good time to review your investment portfolio to ensure that it is still on target to help you achieve your financial goals. To determine whether your investments are still suitable, you might ask yourself the following questions:

- Has my investment time horizon recently changed?
- Has my tolerance for risk changed?
- Do I have an increased need for liquidity in my investments?
- Does any investment now represent too large (or too small) a part of my portfolio?

All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.

Try to pay off any accumulated debt

When it comes to personal finances, reducing debt should always be a priority. Whether you have debt from student loans, a mortgage, or credit cards, have a plan in place to pay down your debt load as quickly as possible. The following tips could help you manage your debt:

- Keep track of your credit card balances and be aware of interest rates and hidden fees
- Manage your payments so that you avoid late fees
- Optimize your repayments by paying off high-interest debt first
- Avoid charging more than you can pay off at the end of each billing cycle

Take a look at your credit history

Having good credit is an important part of any sound financial plan, and now is a good time to check your credit history. Review your credit report and check for any inaccuracies. You'll also want to find out whether you need to take steps to improve your credit history. To establish a good track record with creditors, make sure that you always make your monthly bill payments on time. In addition, you should try to avoid having too many credit inquiries on your report (these are made every time you apply for new credit). You're entitled to a free copy of your credit report once a year from each of the three major credit reporting agencies. Visit annualcreditreport.com for more information.

Assess tax planning opportunities

The return of the spring season also means that we are approaching the end of tax season. Now is also a good time to assess any tax planning opportunities for the coming year. You can use last year's tax return as a basis, then make any anticipated adjustments to your income and deductions for the coming year.

Be sure to check your withholding — especially if you owed taxes when you filed your most recent tax return or you were due a large refund. If necessary, adjust the amount of federal or state income tax withheld from your paycheck by filing a new Form W-4 with your employer.

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Will I owe income taxes when I sell my home?

In general, when you sell your home, any amount you receive over your cost basis (what you paid for the home, plus capital improvements, plus the costs of selling the home) is subject to capital gains taxes. However, if you owned and used the home as your principal residence for a total of two out of the five years before the sale (the two years do not have to be consecutive), you may be able to exclude from federal income tax up to $250,000 (up to $500,000 if you're married and file a joint return) of the capital gain when you sell your home. You can use this exclusion only once every two years, and the exclusion does not apply to vacation homes and pure investment properties.

For example, Mr. and Mrs. Jones bought a home 20 years ago for $80,000. They've used it as their principal residence ever since. This year, they sell the house for $765,000, realizing a capital gain of $613,000 ($765,000 selling price minus a $42,000 broker's fee, minus the original $80,000 purchase price, minus $30,000 worth of capital improvements they've made over the years). The Joneses, who file jointly and are in the 28% marginal tax bracket, can exclude $500,000 of capital gain realized on the sale of their home. Thus, their tax on the sale is only $16,950 ($613,000 gain minus the $500,000 exemption, multiplied by the 15% long-term capital gains tax rate).

What if you don't meet the two-out-of-five-years requirement? Or you used the capital gain exclusion within the past two years for a different principal residence? You may still qualify for a partial exemption, assuming that your home sale was due to a change in place of employment, health reasons, or certain other unforeseen circumstances.

Special rules may apply in the following cases:

- You sell vacant land adjacent to your residence
- Your residence is owned by a trust
- Your residence contained a home office or was otherwise used for business purposes
- You rented part of your residence to tenants
- You owned your residence jointly with an unmarried taxpayer
- You sell your residence within two years of your spouse's death
- You're a member of the uniformed services

Can the IRS waive the 60-day IRA rollover deadline?

If you take a distribution from your IRA intending to make a 60-day rollover, but for some reason the funds don't get to the new IRA trustee in time, the tax impact can be significant. In general, the rollover is invalid, the distribution becomes a taxable event, and you're treated as having made a regular, instead of a rollover, contribution to the new IRA. But all may not be lost. The 60-day requirement is automatically waived if all of the following apply:

- A financial institution actually receives the funds within the 60-day rollover period.
- You followed the financial institution's procedures for depositing funds into an IRA within the 60-day period.
- The funds are not deposited in an IRA within the 60-day rollover period solely because of an error on the part of the financial institution.
- The funds are deposited within one year from the beginning of the 60-day rollover period.
- The rollover would have been valid if the financial institution had deposited the funds as instructed.

If you don't qualify for this limited automatic waiver, the IRS can waive the 60-day requirement "where failure to do so would be against equity or good conscience," such as a casualty, disaster, or other event beyond your reasonable control. However, you'll need to request a private letter ruling from the IRS, an expensive proposition — the filing fee alone is currently $10,000.

Thankfully, the IRS has just introduced a third way to seek a waiver of the 60-day requirement: self-certification. Under the new procedure, if you've missed the 60-day rollover deadline, you can simply send a letter to the plan administrator or IRA trustee/custodian certifying that you missed the 60-day deadline due to one of 11 specified reasons. To qualify, you must generally make your rollover contribution to the employer plan or IRA within 30 days after you're no longer prevented from doing so. Also, there is no IRS fee.

The downside of self-certification is that if you're subsequently audited, the IRS can still review whether your contribution met the requirements for a waiver. For this reason, some taxpayers may still prefer the certainty of a private letter ruling from the IRS.