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Financial Briefs

MAY/JUNE 2017

Tips for Cutting Taxes in Retirement

Whether you're newly retired, about to retire, or thinking ahead, there are numerous benefits to tax planning in your golden years. With sound tax planning, you can protect your golden years from becoming tarnished by unnecessary taxes regardless of whether you're planning to retire 30 years from now or you've already done so.

If You're Thinking Ahead to Retirement…

Consider Investing in a Roth IRA/Roth 401(k)

When it comes to taxes and retirement, if you want to maximize what you've worked so hard to save throughout the years, it's critical to strategize how you invest your money. Anticipating how much you need to save is just the first step; planning on where you will allocate those savings is a critical component if you want to make the most of your retirement funds.

Many people assume that contributing solely to a tax-deferred employer-sponsored plan translates to a comfortable retirement. After all, what could be better than sheltering a portion of your preretirement income from taxes while taking advantage of employer-matching incentives? However, when many people retire, they're surprised to learn that their tax-deferred account withdrawals are not only taxed, but quite possibly at a higher rate than they may have anticipated.

Diversifying your retirement-savings plan by contributing to a Roth IRA or Roth 401(k) plan could give you more flexibility when it comes to tax savings during retirement. While you can't take advantage of tax-saving benefits now, withdrawals from Roth accounts are tax free, allowing more latitude in retirement. In addition to future tax-saving benefits, Roth IRA accounts also provide the flexibility of penalty-free withdrawals of your contributions should you need access to monies for an unexpected situation prior to retirement.

Don't Forget about Other Taxable Investments

Like a Roth IRA or Roth 401(k), brokerage and/or mutual fund accounts can be valuable tax-free income sources in retirement. Unless you want to pay taxes on every withdrawal you make during your retirement years, you'll likely want income sources that aren't subject to taxes down the road. A diversified plan that includes nonretirement accounts can protect you from higher tax brackets and maximize your income throughout your retirement years.

At Retirement Age…

Have a Withdrawal Strategy

Just as you had a retirement savings plan, you'll now need a strategic withdrawal plan to shelter as much of your retirement funds as possible from taxes. The good news is, the more diversified your investments are, the more options you'll have available when it comes to tax

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Consider Investment Tax Strategies

Now is a good time to take a look at your tax situation. You still have time to take action that could reduce your income tax liability for 2017. First, you need to assess where you currently stand:

- Estimate your income, deductions, credits, and exemptions for 2017.
- Determine your marginal tax rate, which is the rate at which your next dollar of income would be taxed. This rate helps you evaluate whether it is worthwhile to use certain tax-planning strategies.
- Evaluate your estimated income

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Tips for Cutting

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savings. Both the timing and sequence of the accounts you draw from can significantly impact what you owe the IRS each year. For example, if you have taxable investments you've held for longer than a year, it may be more prudent to tap into these first, since the maximum 20% long-term capital gains tax could be less than the income tax rate you would pay once you begin withdrawing from your tax-deferred retirement accounts. In fact, you might not pay capital gains tax at all, depending on your income bracket.

If you're over 70½, don't forget about your minimum required distributions; though there are exceptions, failure to take these distributions can invoke a penalty as high as half of the amount you neglected to withdraw.

Plan Ahead: Targeted Tax Brackets

You might also consider meeting with your financial and/or tax advisor to plan ahead for the following tax year with a specific marginal tax rate in mind. You can precalculate taxable income, living expenses, and deductions before deciding how much you'll need to withdraw from your investment accounts to stay within your targeted marginal tax rate.

Consider Delaying Social Security Benefits

This strategy actually provides you with multiple money-saving options. By delaying your Social Security benefits, you'll avoid a higher tax bracket while beefing up your distributions. This isn't just applicable to younger retirees: anyone who reaches his/her full-benefit age receives an annual 8% increase for each year distributions are delayed until age 70. While not everyone can afford to postpone Social Security benefits, you may decide that delaying these benefits as long as possible is financially advantageous in the long run.

Move to an Income-Tax Free State

Many retirees don't just move to states like Arizona for the scenery. The tax-saving incentives can be just as appealing, particularly if you currently reside in a high-tax state. Willing to embrace the cold? Alaska has no state income or sales tax; and once you establish permanent residency, you'll even receive an annual oil wealth dividend check from the state's Permanent Fund. If you had plans involving temperatures of a warmer sort, consider moving to an income-tax free state such as Nevada or Florida. You might also consider states that offer tax immunity solely to retirees, exempting Social Security benefits and even qualified retirement accounts from state income tax.

Please call if you'd like to discuss these strategies in more detail.

Will Your Social Security Benefits Be Taxed?

You've worked decades and are finally ready to retire and begin collecting Social Security benefits. Did you know that you may have to pay taxes on those payments? In fact, approximately 40% of Social Security beneficiaries pay taxes on their benefits (Source: *U.S. News and World Report*, February 9, 2015).

Whether you pay taxes depends on how much money you earn and where the money comes from. When the sum of your adjusted gross income, nontaxable interest, and half of your Social Security benefits reaches $25,000 for individuals and $32,000 for couples, you will pay income tax on up to 50% of your Social Security benefits. Additionally, if your retirement income reaches $34,000 for individuals and $44,000 for couples, you will pay income tax on up to 85% of your Social Security payments.

What Income Sources Will Make Your Benefits Taxable?

Income sources that can push you over the taxable threshold include: interest, dividends, pension payments, and 401(k) plan and IRA withdrawals. Interest income that is tax exempt, such as interest on municipal bonds or savings bonds, also has to be included in the calculation that determines taxes on your Social Security payments. Additionally, if you continue to work while collecting Social Security benefits, your wages will be included in the calculation.

Strategies to Keep Your Income Below the Threshold

As you begin approaching retirement, consider some of these strategies to help minimize or eliminate taxation of your Social Security benefits:

Roth IRA

Prior to retirement, you can convert your 401(k) plan or regular IRA to a Roth IRA. While you will pay income taxes in the year you rollover your funds to a Roth IRA, any withdrawals from the Roth IRA are not taxable and will not pose tax implications for Social Security payments.

Draw from Accounts First

Before you sign up for Social Security, first take withdrawals from your pretax 401(k) and IRA. By delaying your application for benefits, you may get higher Social Security payments with lower or no taxes on your benefits. You have to take withdrawals from 401(k)s or IRAs at some point, so this may be an opportunity to minimize your taxes during retirement.

Restructure Your Portfolio

You may want to structure your portfolio to a growth-oriented strategy versus an income-generating strategy. If you're earning income you really don't need, you will also be paying taxes you don't want to pay. By shifting to a growth strategy, you will reduce the income you generate and, thus, won't pay as much or anything on your Social Security benefits.

Please call if you'd like to discuss this in more detail.

Consider Investment

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tax liability for the year.

- Determine whether you will be subject to the alternative minimum tax (AMT) for 2017, which will have an impact on tax-planning strategies.

Once you have an idea of where you stand for 2017 with your income tax situation, you can evaluate some tax-planning strategies that may reduce your income tax burden in 2017. Here are some tips to consider:

- **Sell stocks with losses to offset capital gains.** If you have capital gains income but are holding stocks with losses, consider selling those stocks to offset the capital gains. Excess losses may be used to offset up to $3,000 of ordinary income, and the unused portion can be carried forward until utilized.
- **Contribute the maximum amount to your 401(k) plan.** Take a look at your financial situation making sure you are contributing as much as possible to your 401(k) plan. Unless you have a Roth 401(k), contributions are made from pretax dollars. When you invest in a taxable account, you have already paid income taxes on that money, so you will only be investing 65 or 75 cents instead of the dollar that would be going into your 401(k) plan. That difference makes a 401(k) plan tough to beat over the long term. The maximum contribution to a 401(k) plan in 2017 is $18,000, plus individuals age 50 and over can make an additional catch-up contribution of $6,000, if permitted by the plan.
- **Decide to which type of IRA to contribute and do so as soon as possible.** Make a decision as to whether you should contribute to a traditional deductible or Roth IRA. Although you have until April 16, 2018, to make your 2017 contribution, contribute as soon as possible to allow your funds to compound tax deferred or tax free for a longer time. The maximum IRA contribution in 2017 is $5,500, with an additional $1,000 catch-up contribution for individuals age 50 or older.
- **Replace loans that generate personal interest with mortgage or home-equity loans.** Personal interest cannot be deducted on your tax return, while mortgage and home-equity loan interest can, as long as the mortgage does not exceed $1,000,000, and the home-equity loan does not exceed $100,000.
- **Determine whether you should bunch income or expenses for 2017.** Depending on your overall tax situation, it may make sense to accelerate or defer income and expenses. Some deductions that can be accelerated or deferred include payment of property taxes, estimated state taxes, medical expenses, and charitable contributions. Income that can typically be deferred includes self-employment income and year-end bonuses or commissions.
- **Donate appreciated stock held over a year to a charitable organization.** You can deduct the stock's fair market value as a charitable contribution without paying the capital gains tax on the sale.
- **Sell assets on the installment basis.** You can use this method to sell certain capital assets, particularly real estate, which will typically allow you to recognize the gain as the installments are collected rather than in total in the year of sale. You may also want to consider a like-kind, or section 1031, exchange, which allows you to defer any tax liability.
- **Consider transferring appreciated assets to children.** If the children are in the 10% or 15% tax bracket, they can sell the asset and pay no capital gains taxes in 2017. These transfers can be made as part of your annual tax-free gifts, with a maximum tax-free transfer of $14,000 in 2017 ($28,000 if the gift is split with your spouse). However, be aware of the kiddie tax rules, which apply to all children under age 19 and to students under age 24. If the earned income of an individual over age 17 exceeds half of his/her support, the kiddie tax does not apply. The kiddie tax refers to the manner in which unearned income is taxed for children. In 2017, the first $1,050 of unearned income is tax free, the second $1,050 is taxed at the child's marginal tax rate, and any remaining unearned income is taxed at the parents' marginal tax rate. Once the individual exceeds the age limits, all unearned income is taxed at his/her marginal tax rate.
- **Familiarize yourself with all types of income tax deductions, exemptions, and credits.** There are a wide variety available, and you should be aware of any that apply to you. Each has different eligibility criteria, so you need to be familiar with all of them to determine which will work best in your situation.
- **Consider your long-term planning needs.** In addition to lowering income taxes for 2017, you also want to find strategies to lower taxes in future years. Thus, it is a good time to review your entire tax situation to see if other changes are warranted. For instance, you may want to invest more in municipal bonds, whose interest income is generally exempt from federal and sometimes state and local income taxes. Or you may need to reposition assets between your taxable and tax-deferred accounts to minimize taxes once you start taking withdrawals.

Please call if you'd like to review your tax situation in more detail.

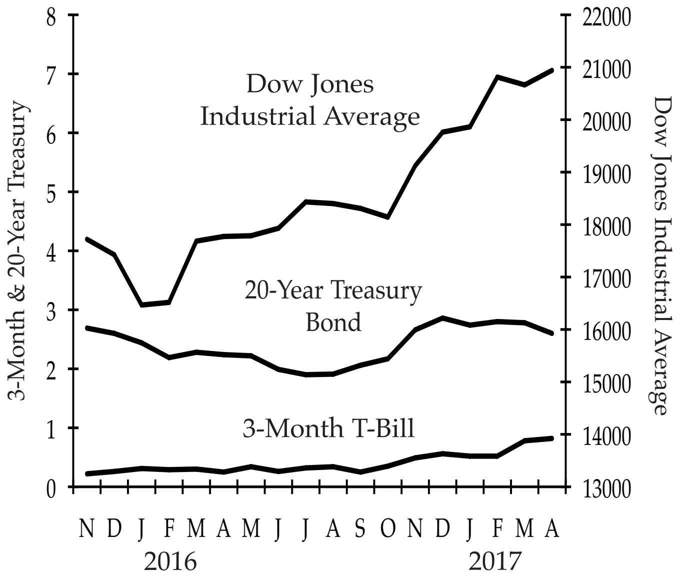
Business Data

Indicator	Month-end Feb-17	Mar-17	Apr-17	Dec-16	Apr-16
Prime rate	3.75	4.00	4.00	3.75	3.50
3-month T-bill yield	0.52	0.78	0.82	0.56	0.25
10-year T-note yield	2.46	2.42	2.23	2.55	1.84
20-year T-bond yield	2.80	2.78	2.60	2.86	2.24
Dow Jones Corp.	3.17	3.22	3.09	3.17	2.80
GDP (adj. annual rate)#	+3.50	+2.10	+0.70	+2.10	+0.80

Indicator	Month-end Feb-17	Mar-17	Apr-17	% Change YTD	12-Mon.
Dow Jones Industrials	20812.24	20663.22	20940.51	6.0%	17.8%
Standard & Poor's 500	2363.64	2362.72	2384.20	6.5%	15.4%
Nasdaq Composite	5825.44	5911.74	6047.61	12.3%	26.6%
Gold	1255.60	1244.85	1266.45	9.3%	-1.5%
Unemployment rate@	4.80	4.70	4.50	-2.2%	-10.0%
Consumer price index@	242.80	243.60	243.80	1.0%	2.4%
Index of leading ind.@	125.50	126.20	126.70	2.2%	2.7%

— 3rd, 4th, 1st quarter @ — Jan, Feb, Mar Sources: *Barron's*, *Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
November 2015 to April 2017



News and Announcements

A Tax-Planning Perspective

There are basically three strategies that can help reduce your income tax bill:

1. Reduce or eliminate taxes. The objective is to receive income in a nontaxable form or to find additional tax deductions, exemptions, or credits. For instance, you might want to consider municipal bonds, whose interest income is generally exempt from federal and sometimes state and local income taxes. Or investigate investments that generate capital gains such as growth stocks. Gains are not taxed until the investment is sold; and if held for over one year, capital gains are subject to the 15% capital gains tax rate (0% for individuals in the 10% or 15% tax bracket and 20% for taxpayers in the 39.6% tax bracket). If you have realized capital gains, you might want to offset those gains by selling investments with losses.

2. Postpone the payment of income taxes until sometime in the future. By postponing tax payment, your earnings compound on the entire balance, including the portion that will eventually be paid in taxes. You may also be in a lower tax bracket when the taxes are paid. For example, contribute as much as possible to retirement accounts, including employer plans and individual retirement accounts (IRAs).

3. Shift the tax burden to another individual. The objective of this technique is to transfer assets to other individuals so any income on those assets becomes taxable to those individuals. Typically, however, you have to give up control of the asset. For example, you can give annual tax-free gifts up to $14,000 in 2017 ($28,000 if the gift is split with your spouse) to any number of individuals. Any future income generated on those gifts then becomes taxable to those individuals. You may also want to use your lifetime gift-tax exclusion of up to $5,490,000 to make larger gifts.

Please call if you'd like to discuss tax strategies in more detail. FR2017-0118-0074