OnWealth

Financial Advice from Wealth Management Services

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Due Date Approaches for 2016 Federal Income Tax Returns

Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of last year's tax return and gathering W-2s, 1099s, and deduction records. You'll need these records whether you're preparing your own return or paying someone else to do your taxes for you.

Don't procrastinate

The filing deadline for most individuals is Tuesday, April 18, 2017. That's because April 15 falls on a Saturday, and Emancipation Day, a legal holiday in Washington, D.C., is celebrated on Monday, April 17. Unlike last year, there's no extra time for residents of Massachusetts or Maine to file because Patriots' Day (a holiday in those two states) falls on April 17 — the same day that Emancipation Day is being celebrated.

Filing for an extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 16, 2017) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

Filing for an automatic extension does not provide any additional time to pay your tax! When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the April filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

Note: *Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances you are generally allowed an automatic two-month extension without filing Form 4868, though interest will be owed on any taxes due that are paid after April 18. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.*

What if you owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible. If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

Expecting a refund?

The IRS is stepping up efforts to combat identity theft and tax refund fraud. New, more aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, beginning this year, a new law requires the IRS to hold refunds on all tax returns claiming the earned income tax credit or the refundable portion of the Child Tax Credit until at least February 15.[1]

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a return.

[1] IRS.gov (IR-2016-117, IRS Urges Taxpayers to Check Their Withholding; New Factors Increase Importance of Mid-Year Check Up, August 31, 2016)

April 2017

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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.

Company-sponsored volunteer projects and projects that encourage employees to team up with their peers are the most common components of a company's volunteer strategy. Nearly 60% of companies offer paid time off for employees to volunteer.

Source:** [America's Charities]() **2015 Snapshot

Encouraging a Culture of Philanthropy in Your Business

As a business owner, you are committed to serving the needs of many different stakeholders, including your customers/clients, business partners and investors, employees, vendors, and family members. And like many business owners, you may also be highly motivated to have an impact on the "greater good." The benefits of giving back are both tangible and intangible, but where do you begin? Start by fostering a culture of philanthropy within your business.

Understand the "triple bottom line" approach

First coined in 1994 by John Elkington, an authority in the area of corporate responsibility, the triple bottom line (TBL) approach is used by many large companies to measure not just their financial impacts but their social and environmental impacts as well. Small businesses can use this triple bottom line philosophy as a guiding framework in meeting their philanthropic and social responsibility goals. Incorporating TBL thinking and language into a written mission statement may help clarify such goals for important stakeholders.

Determine your organization's focus

Consider tackling your organization's philanthropic endeavors in a manner similar to your business plan. That is, identify a need that is related to your business or one it may be uniquely qualified to address, and draft a written plan to support it.

What are your organization's strengths, talents, interests, and products? How can you put them to use in a charitable way? For example, if your business is a law firm, you might consider offering pro bono services to a specific group of individuals who cannot afford legal counsel, or perhaps to a nonprofit organization that needs a periodic review of documents. If you own a sporting goods store, maybe you can find ways to work with the community to encourage physical fitness or donate equipment to a children's organization. The key is to match up local needs with the resources your business can provide.

Involve your employees

Once you document your area of philanthropic focus, you may discover a variety of ways to get your employees involved, which could have the added benefit of boosting employee morale. You might, for example, match employee donations to nonprofit organizations (within certain financial limits and donation parameters) or allow your employees to take paid time off to volunteer. You could ask staff members to lead a committee that coordinates charitable events throughout the year — just be sure this work doesn't become an additional burden or obligation on top of their everyday responsibilities. You could incorporate charitable giving into team-building or ice-breaking exercises, such as randomly assigning groups of employees to work together on specific projects that aid underprivileged children or homeless families.

Consider sponsorships

Many organizations help citizens directly (and also get a little positive publicity) by sponsoring teams or events within their communities. Such tactics might include sponsoring a youth soccer team or providing funding for a charity road race. Remember to ensure that your company's name and logo appear on event clothing, promotional materials, and signage to help spread the good word that your company cares.

Provide cash donations

You could make direct cash donations to charitable organizations. Remember to get receipts and maintain appropriate records for donations of cash or goods for tax purposes.

Realize tax benefits

Speaking of taxes, don't neglect to take advantage of any tax benefits that may result from your philanthropic endeavors. In most cases, you can take a deduction of up to 50% of your adjusted gross income if you itemize deductions on Form 1040, Schedule A.

Corporations (other than S corporations) can deduct charitable contributions on their income tax returns, subject to limitations. See the instructions for Form 1120 for more information.

Not all contributions are deductible. Following is a brief summary from the Small Business Administration.

- Cash contributions are deductible as long as they aren't set aside for use by a specific person. Cash contributions should be made within the current tax year, regardless of the accounting method used by your business.
- Property or inventory donations are tax deductible. Use Form 8323 to determine the fair market value of goods valued at more than $500 ($5,000 for C corporations).
- Although you cannot deduct the value of volunteer hours donated, you can deduct the costs incurred for a volunteer activity.

For more detailed information, consult IRS Publication 526, Charitable Contributions, and be sure to consult with a tax professional.

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What are bond ratings?

Bond ratings are an essential tool when considering fixed-income investments. Ratings provide a professional assessment of credit risk, or the risk of default, which can be measured to some degree by analyzing the bond issuer's financial condition and creditworthiness.

Credit rating agencies perform this type of analysis and issue ratings that reflect the agency's assessment of the bond issuer's ability to meet the promised interest payments and return the principal upon maturity. The best-known independent rating agencies — Standard & Poor's, Moody's Investors Service, and Fitch Ratings — use similar scales in descending alphabetical order, ranging from AAA/Aaa for the most creditworthy bonds to C/D for the least creditworthy.

Bonds rated BBB/Baa or higher are considered "investment grade." Lower-rated bonds, commonly called "junk bonds," are non-investment grade; they generally offer higher yields and are considered speculative with higher credit risks. Bond insurance can add a layer of protection, but it is only as good as the insurer's credit quality and ability to pay.

A credit rating is not a recommendation to purchase a bond. Even so, higher-rated bonds in general may be more appealing to investors, and — due to supply and demand — typically have a lower yield than similar bonds with a lower rating. Investors must balance risk and reward when choosing bonds that present a comfortable risk while providing a yield that is appropriate to help meet investment goals.

Ratings are very important to a bond issuer when the bond is first offered for sale, because a higher rating may reduce interest costs. After the initial sale, significant shifts in the issuer's financial condition could result in rating changes that may affect the bond's yield and market value. However, as long as the issuer does not default, a change in a bond's rating would not affect the coupon rate or the principal due upon maturity.

Bonds carry other risks as well, such as market risk, interest rate risk, and inflation risk. However, these depend on factors that are difficult to measure or predict.

The principal value of bonds fluctuates with changes in market conditions. A bond sold prior to maturity may be worth more or less than its original value.

What bond ratings do agencies use?

Bond rating agencies typically use similar scales, and it may be helpful to understand how to compare ratings from multiple agencies.

This chart compares bond ratings in descending order of creditworthiness (from left to right) as judged by the three best-known credit agencies.

Standard & Poor's and Fitch Ratings use the symbols + and – to denote the upper and lower ranges of ratings from AA to CCC; Moody's uses the numbers 1, 2, 3 to denote the upper, middle, and lower ranges from Aa to Caa.

	Investment Grade				**Non-Investment Grade**			
Standard & Poor's	AAA	AA	A	BBB	BB	B	CCC	CC/C/D
Moody's Investors Service	Aaa	Aa	A	Baa	Ba	B	Caa	Ca/C
Fitch Ratings	AAA	AA	A	BBB	BB	B	CCC	RD/D

Note: If a bond is insured (typically for lower-rated bonds), there will be two ratings, one for the bond issuer and one for the insurer. Bond insurance adds a potential layer of protection in the event that an issuer defaults, but it is only as good as the insurer's credit quality and ability to pay. An investor should not buy bonds based solely on the insurance.