A 12-Point Checklist for Year-End Planning

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Leaping ahead

As we head into the final lap, 2017 has been a banner year for stocks not just in the U.S., but around the world. Investors have been focused on the upbeat fundamentals–corporate profit growth sparked by economic gains at home and abroad.

The U.S. economy grew at 3.3% in Q3, according to revisions released by the U.S. BEA. It's the second quarter in a row that GDP has exceeded 3%, a feat that hasn't occurred in the three previous years. As Q3 concludes, S&P 500 earnings are up a solid 8.4% versus a year ago, according to Thomson Reuters. And analysts are forecasting a return to double-digit earnings growth in 2018.

Strong gains in the market sometimes encourage investors to plow headfirst into stocks. Others openly wonder if it's time to move to the sidelines. Let us take this moment to tell you market timing is a game best left to gamblers. We've had almost 60 all-time closing highs in the S&P 500 Index this year (LPL Research, St. Louis Federal Reserve). That comes on top of a string of highs the market has recorded since 2013.

A new high means one thing–stocks closed higher that day versus the prior day. By itself, it doesn't foreshadow an imminent downturn. Nevertheless, if you are concerned and want to talk, we're simply a phone call way. We'd love to hear from you!

Table 1: Key Index Returns

Index Name	MTD %	YTD %	3-year* %
Dow Jones Industrial Average	+3.8	+22.8	+10.8
NASDAQ Composite	+2.2	+27.7	+12.8
S&P 500 Index	+2.8	+18.3	+8.6
Russell 2000 Index	+2.8	+13.8	+9.6
MSCI World ex-USA**	+0.8	+19.0	+2.8
MSCI Emerging Markets**	+0.2	+30.0	+3.7
Bloomberg Barclays US Aggregate Bond TR	-0.1	+3.1	+2.1

Source: *Wall Street Journal*, MSCI.com, MarketWatch, Morningstar

MTD returns: Oct. 31, 2017-Nov. 30, 2017
YTD returns: Dec. 30, 2016-Nov. 30, 2017
*Annualized
**in US dollars

12 smart planning moves to consider as tax reform looms

It’s hard to believe, but another year is almost behind us. With January just around the corner, now is a great time to review various items you may want to consider as you get set to enter 2018. Many of the IRS publications referenced below are for tax year 2016. Changes are not anticipated when 2017 guides are published.

Before we get started, let me stress that it is our job to assist and help you! We can’t overemphasize this, and we would be happy to review the options that are best suited to your situation. When it comes to tax matters, we recommend you check with your tax advisor.

Right off the bat, let’s talk about what’s on everyone’s mind–tax reform.

1. **Sweeping changes in the tax code** were supposed to be enacted much earlier in the year, but Congress has been preoccupied with health care. Instead, changes appear to be in the pipeline for 2018.

   Both the House and Senate have passed their respective versions of tax reform. The House and Senate will now convene a conference–a give-and-take session that is designed to craft a single bill that must then be approved by each chamber. Only then can the President sign the legislation, which will usher in a new tax code.

   That said, how we file for tax year 2018 may differ from how we file for tax year 2017. For example, will the alternative minimum tax (the AMT) be wiped from the tax code? Will Congress kill the estate tax?

   Both the Senate and House proposals make few, if any, changes to retirement accounts, but we could see tweaks in a final bill. Personally, we're encouraged that the House and Senate have yet to materially alter the tax treatment for retirement accounts and the favorable treatment dividends and capital gains receive.

   However, we should point out that the Senate bill changes the way we would account for capital gains, i.e., a first-in, first-out method to calculate gains when a stock is sold. That said, we're reluctant to speculate how these key categories may emerge if tax reform is signed into law.

Investment and financial planning

2. **Is it time to rebalance your portfolio**? Changes in the market can cause your asset allocation to shift. As we head into the homestretch, we’ve witnessed strong gains in stocks this year, both domestic and international. Year-end is a great time to review your portfolio and make any necessary adjustments.

   Typically, we would counsel that profits should be taken next year, pushing the tax burden into tax year 2018.

   But we must caution that there is an outside possibility the final version that may land on the President’s desk could produce changes in how capital gains are treated.

3. **Review your income or portfolio strategy**. Are you reaching a milestone in your life such as retirement or a change in your circumstances? Has your tolerance for taking risk changed? If so, this may be just the

right time to evaluate your approach. However, let us caution about making changes based simply on market performance.

One of our goals has always been to remove the emotional component from the investment plan. You know, the one that encourages investors to load up on stocks when the market is soaring and to sell when stocks have taken a beating.

We know that markets rise and fall. We understand that declines can be unnerving, we really do. Yet over the long term, markets rise much more than they fall.

While stocks have been on a record run, it's a good time for me to once again remind you that a disciplined approach that avoids emotional decisions has historically been the shortest path to reaching one's financial goals.

I know I've said this before, but it is key to make sure you have not taken more risk than you can sustain. We have many tools that can help protect and grow your wealth outside of traditional stocks, bonds, and mutual funds.

4. **Take stock of changes in your life** and review insurance and beneficiaries. Let's be sure you are adequately covered. At the same time, it's a good idea to update beneficiaries if the need has arisen.

Tax planning in the context of possible changes in the tax code

5. **Tax loss deadline**. You have until December 31, 2017 to harvest any tax losses and/or offset any capital gains. But be careful. There are distinctions between short- and long-term capital gains, and you must be aware of wash-sale rules (IRS Publication 550) that could disallow a capital loss.

6. **This brings us to mutual funds and taxable distributions**. This is a topic best discussed by using an example: If you buy a mutual fund on December 18 and it pays a dividend and capital gain December 20, you will be responsible for paying taxes on the entire distribution, even if the capital gains and dividends collected by the fund occurred throughout the entire year.

   Yet, following the distribution, the net asset value of the fund will fall by the amount of the payout. Put another way, your investment in the fund remains the same. It's a tax sting that's best avoided. Therefore, it is usually a good idea to wait until after the annual distribution to make the purchase.

7. **Required minimum distributions** (RMDs) generally are minimum amounts that a retirement plan account owner must withdraw annually starting with the year that he or she reaches 70½ years of age or, if later, the year in which he or she retires. However, if the retirement plan account is an IRA or the account owner is a 5% owner of the business sponsoring the retirement plan, the RMDs must begin once the account holder is age 70½, regardless of whether he or she is retired (IRS Retirement Plan and IRA Required Minimum Distributions FAQs).

8. The first payment can be delayed until April 1 of the year following the year in which you turn 70½. For all subsequent years, including the year in which you were paid the first RMD by April 1, you must take the RMD by December 31 of that year.

   The RMD rules also apply to 401(k), profit-sharing, 403(b), 457(b) or other defined contribution plans as well as SEP IRAs and Simple IRAs.

   <u>*Don't miss the deadline or you could be subject to steep penalties!*</u>

9. **Contribute to a Roth IRA**. A Roth gives you the potential to earn tax-free growth (not just deferred tax-free growth) and allows for federal tax-free withdrawals if certain requirements are met. There are income limits, but if you qualify, you may contribute $5,500, or $6,500 if you are 50 or older (IRS Retirement Topics–IRA Contribution Limits).

   If you satisfy the requirements, qualified distributions are tax-free. You can make contributions to your Roth IRA after you reach age 70½ and there are no requirements to take mandatory distributions.

   You may also be eligible to contribute to a traditional IRA, and contributions may be fully or partially deductible, depending on your circumstances. The same contribution limit that applies to a Roth IRA also applies to traditional IRAs. Total contributions for both accounts cannot exceed the prescribed limit.

   You can make 2017 IRA contributions until April 17, 2018 (Note: statewide holidays can impact final date).

10. **Consider converting a traditional IRA to a Roth IRA**. There are a number of items you may want to consider, including current and future tax rates as well as the potential for tax reform, but if the situation is right, it can be advantageous to convert to a Roth IRA.

11. **College savings**. Tax reform looms large over college savings accounts. A limited option, called the Coverdell Savings account (IRS Publication 970) gets the ax in the House bill. The Senate bill maintains the status quo, according to the Senate Finance Committee document, "Tax Cut and Jobs Act and College Access."

    Currently, total contributions for a beneficiary cannot exceed $2,000 in any year. Any individual (including the designated beneficiary) can contribute to a Coverdell ESA if the individual's modified adjusted gross income for the year is less than $110,000. For individuals filing joint returns, the amount is $220,000. Contribution limits get phased out after hitting the respective limits.

    If reform passes, the House proposes that Coverdell Savings Accounts be converted into 529 plans. A 529 plan allows for much higher contribution limits, and earnings are not subject to federal tax when used for the qualified education expenses of the designated beneficiary. Contributions, however, are not deductible.

12. **Achieving a Better Life Experience (ABLE) account.** This is a savings account for individuals with disabilities and their families. For 2017, you can contribute up to $14,000. Distributions are tax free if used to pay the beneficiary's qualified disability expenses, which may include some education expenses (IRS Publication 907, Fidelity—ABLE).

13. **Charitable giving**. Whether it is cash, stocks, or bonds, you can donate to your favorite charity by December 31, potentially offsetting any income. Did you know that you may qualify for what's called a "qualified charitable distribution (QCD)?" A QCD is an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA) owned by an individual who is age 70½ or over that is paid directly from the IRA to a qualified charity ("Rules to Do an IRA Qualified Charitable Distribution"– www.kitces.com). The IRA owner must be at least 70½ when the distribution is made.

We hope you've found this review to be educational and helpful, but keep in mind that it is not all-encompassing. Once again, before making any decisions that may impact your taxes, please consult with your tax advisor.

Let us emphasize again that it is my job to assist you! If you have any questions or would like to discuss any matters, please feel free to give me or any of our team members a call.

As always, we're honored and humbled that you have given me the opportunity to serve as your financial advisor. ***We hope you have a Merry Christmas!***

Sincerely,

Jarrod Hull &

The Pineywoods Financial Team