The COMPASS Chronicle

Summer 2016 *Highlighting important wealth management issues*

16 Of The Best Tax Moves For The Summer Of '16

Now that the Protecting Americans from Tax Hikes (PATH) Act has removed some of the uncertainty, tax planning during the summer of 2016 should be a breeze. Here are 16 tax-saving opportunities that may be available to you midway through the year:

1. Capital losses: If you cashed in stock winners earlier in the year, you can start filling up the loss side of the ledger. Your capital losses will completely offset capital gains that you realize in 2016, plus up to $3,000 of highly taxed ordinary income.

2. Capital gains: Meanwhile, if you sell securities and earn what qualify as long-term capital gains, the maximum tax rate is only 15% or 20% if you're in the top ordinary income tax bracket. But some upper-income investors also may have to pay a surtax of 3.8% on investment income.

3. Higher education: Is your child going to college in the fall? Lay the groundwork for tax breaks. You may be able to claim a higher education tax credit or a tuition deduction, though these tax advantages are phased out at relatively modest income levels. The PATH Act restores the tuition deduction and makes the American Opportunity tax credit permanent.

4. Wash sales: If you acquire substantially identical securities within 30 days of selling an investment at a loss, you can't deduct the loss. But this "wash sale" rule can be avoided by waiting at least 31 days to buy back the same securities. Or you could buy the additional securities first and wait at least 31 days before selling your original shares.

5. Dividend-paying stocks: Most stock dividends are taxed at the same preferential tax rates as long-term capital gains. To qualify for this tax break, you must hold the shares for at least 61 days.

6. Installment sales: Generally, you can defer tax on the sale of real estate or other property if you receive payments over two years or longer. Besides stretching out tax payments over time, you might reduce the effective tax rate if you stay below the thresholds for higher capital gains rates and the 3.8% surtax.

7. Hiring your child: Does your child need a summer job? If you hire the child to work at your business, your business can deduct the wages, which will be taxable to your child at his or her low tax rate.

8. 401(k) contributions: Reduce your tax liability by increasing contributions to a 401(k) plan at work. For 2016, the maximum deferral is $18,000 ($24,000 if you're 50 or older). Not only do you avoid tax on the contributions, the money in your account compounds tax-deferred until you withdraw it, probably during retirement.

9. Qualified small business stock: Invest in qualified small business stock (QSBS) of a fledgling company (perhaps your own). The PATH Act restores a 100% tax exclusion for sales of QSBS if

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COMPASS Corner

Louis E. Conrad II, CFA®

Despite the fear that "Brexit," or the vote on June 23 by the U.K. electorate to exit the European Union, would be disastrous for the world's stock markets, the reality is that the U.S. stock market sold off by about 5% over two days before subsequently rebounding. In fact, the S&P 500 recently has reached new all-time highs and has generated a total return of nearly 8% year-to-date as of the end of July. True, the European markets have not fared as well (the MSCI EAFE Index is up only 1% since December 31), but the emerging markets have come to life, gaining 12% thus far in 2016.

Bond markets rallied in reaction to Brexit in a flight-to-quality trade, with the yield on the 10-year U.S. Treasury reaching 1.32% in early July, though interest rates have begun creeping up since then, ending July at 1.46%.

Recent economic signs in the U.S. have been generally positive. Though second quarter real GDP growth was only 1.2%, about 1% below expectations, much of this was a result of a drawdown in inventory levels, which can be expected to improve in subsequent quarters. Consumer spending advanced 4.2% during the second quarter and corporate earnings growth has begun to show improvement.

COMPASS expects economic growth to be roughly 2% for the balance of the year, with modest stock market gains still possible.

Show More Life With A Living Trust

In some financial circles, a revocable living trust has been touted as a staple of estate planning that can even be used to replace a legally valid will. Normally, however, a living trust is viewed as a supplement to a will, not an outright replacement. Here's how this estate-planning technique may serve you best—in life and death:

It's important to understand the basic differences between a will and a living trust. Your "last will and testament" is a legal document determining how, when, and to whom your possessions will be distributed upon your death. It doesn't have any effect until you die. However, a will normally must go through probate before distributions are made. (Property passing through joint rights of survivorship may be one exception to that rule.)

In addition, a will alone may not achieve all of your estate-planning objectives. For instance, you can't impose any conditions on gifts made through a will.

A revocable living trust also is a legally valid document, and you may be able to transfer securities, real estate, or other property to the trust, and you can give the trustee power to manage it on behalf of the designated beneficiaries. Typically, you might name yourself as both the trustee and the initial beneficiary of the trust. At the same time, you can designate other family members—say, your spouse, your children, or both—as secondary beneficiaries entitled to receive remaining assets in the trust when it terminates.

With a living trust, you'll retain a high level of control while you're alive. For instance, you may be able to sell trust assets and keep the cash, amend the terms of the trust (for example, by changing secondary beneficiaries), or revoke it entirely. Unlike a will, a living trust allows you to place restrictions on gifts to beneficiaries. The trust becomes irrevocable when you die.

The main advantage living trusts have over wills is that the property transferred to the trust doesn't have to go through probate. Depending on the state in which you live, probate can be time-consuming. In addition, unlike a will, a living trust isn't available to public inspection, ensuring complete privacy with respect to the assets it holds and distributes.

But don't assume that a living trust is a panacea. It will require some time and work on your part to make all of the necessary arrangements. Also, if you devise a "pour-over will" to catch assets not in the living trust, the will must be probated anyway. Finally, despite some claims to the contrary, there are no estate-tax benefits for property transferred to a living trust.

Clearly, a living trust may provide valuable benefits, but it usually works best hand in hand with your will. We can help you work with your attorneys to find a solution that works for you. ●

16 Tax Moves For Summer Of '16

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you hold the stock at least five years before selling it.

10. Roth IRA conversions: You can convert some or all of the funds in a traditional IRA to a Roth. In return for paying income tax on the converted amount, future Roth IRA distributions will be tax-free if they meet certain conditions. To minimize the current tax impact, you could stagger taxable conversions over several years.

11. Vacation homes: You can write off certain rental activity costs, plus depreciation, but be careful: If you use the rental home for more than 14 days or for 10% of the days the home is rented out, whichever is greater, your deductions are limited to the amount of your rental income.

12. Dependency exemptions: You probably still can claim a $4,000 dependency exemption for a child graduating from college in 2016 if you provide more than 50% of the child's annual support. Figure out the amount needed to put you over the half-support mark.

13. Charitable gifts of property: Don't toss out old furniture and clothing; give items in good condition to charity. Generally, you can deduct the fair market value of property donated to a qualified organization, within certain limits.

14. Conservation easements: A special tax provision allows you to claim deductions for donating conservation easements involving property you own. Under the PATH Act, you can deduct up to 50% of your adjusted gross income (AGI) this year (100% for farmers and ranchers) instead of the usual 30%-of-AGI limit.

15. Day camps: If your under-age-13 children attend a day camp while you (and your spouse, if married) work this summer, you may qualify for the dependent child care credit. However, the cost of overnight camp isn't eligible.

16. Estimated taxes: Check to see whether you're withholding enough income tax from your paychecks and adjust the amount if necessary to avoid owing an "estimated tax penalty" in 2016. ●

COMPASS Wealth Management 290 Baker Avenue, Suite N101, Concord, MA 01742-2193 P (978) 254-7040 F (978) 254-7039 www.compassinvest.com