

Wednesday, November 30, 2016

3:41 PM

**Welcome**

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**Edwin S. Fernandez, CPA/PFS**  
Financial Advisor

**Legacy Financial Group**  
8400 Holly Ave NE, Bldg. 4,  
Albuquerque, NM 87122  
505-839-0224 Office  
505-321-8515 Cell  
edwin.fernandez@voyafa.com



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**Improve Financial Wellness  
Through Tax Planning**

**Edwin S. Fernandez, CPA/PFS**  
Title: Investment Advisor  
Date: December 1, 2016



**Retirement Ready**

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### Disclosure

The information contained herein is not intended to be used for avoiding federal, state or local tax provisions, promoting, marketing, or recommending to another party any transaction or matter addressed herein.

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### Welcome

Edwin S. Fernandez, CPA/PFS  
Financial Advisor



- A CPA/PFS has received the most comprehensive financial planning professional certification available, the Personal Financial Specialist credential. The educational requirements necessary to become a CPA, as well as the experience, skills and credentials make them the best choice to assist clients and potential clients in a holistic manner with any tax, estate, retirement, investment and risk management planning concerns they may have.
- **Every CPA/PFS is first and foremost a CPA - only CPAs qualify to hold the CPA/PFS.**
  - A CPA's foundational tax expertise and business acumen coupled with the stringent PFS requirements of financial planning knowledge enables the CPA/PFS to uniquely address the financial planning concerns of individuals.
- **Every CPA/PFS has a duty to approach financial planning objectively and without bias; intent on upholding our client's best interest.**
  - CPAs are held to a strict code of professional conduct and standards with regulatory oversight by state boards of accountancy.
  - The CPA/PFS credential builds on the CPA profession's relationship as a trusted advisor.
- **Every CPA/PFS is a part of the American Institute of CPAs, the largest professional organization for CPAs.**

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### Improve Your Financial Wellness Through Tax Planning

#### Financial House



- What's Important to you
- The Big Picture
- It All Adds Up
- 1040 Tax Planning
- Estate Planning
- Filling In the Gaps

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### Impact of Taxes & Your Plan

- Life Stages & Tax Planning
- Types of Taxes
- Types of Income
- Taxable Income
- Tax Rates
  - Current
  - Proposed
- Strategies to reduce income
- Tax Implications of Moving \$



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### Taxes & Your Financial Plan

#### Life Stages & Tax Planning

	Young Adulthood	Middle Adulthood	Older Adulthood	Retirement
Source of Income	Wages	Wages & Investments	Wages & Investments	Investment
Asset Base	None	Accumulating	Growing	Depleting
Adjusted Gross Income	Low	Higher	Highest	Lower
Deductions & Exemptions	Low	Higher	High	Low

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### Types of Taxes

- Income – Federal & State
  - Ordinary
  - Capital Gains
  - Alternative Minimum Tax
  - Medicare Surtax
  - Self Employment
- FICA
- Estate
- Gift
- Property Taxes
- Energy Taxes
- Sales
- Consumption
- Travel – Hotel/Lodging
- Communications



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### Types of Income



- Wages
- Interest & Dividends
- Tax Refunds
- Alimony
- Business Income
  - Schedule C
  - Schedule F
- Capital Gain

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### Types of Income (cont.)

- Retirement – IRA & Pension
- Rental Activity – Schedule E
- Pass-through Income – Partnership, S-Corporation, Trust, Royalty, etc.
- Social Security
- Other Income



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### Taxable Income

- Adjusted Gross Income
- Standard Deduction

2016 Filing Status:	Deduction Amount:	2017 Filing Status:	Deduction Amount:
Single	\$6,300	Single	\$6,350
Married Filing Separately	\$6,300	Married Filing Separately	\$6,350
Married Filing Jointly	\$12,600	Married Filing Jointly	\$12,700
Head of Household	\$9,300	Head of Household	\$9,350
For Dependents	\$1,050	For Dependent	\$1,050
Personal Exemption	\$4,050	Personal Exemption	\$4,050

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### Deductions From Income

- **Itemized Deductions:**
  - Medical
  - Taxes – real estate, state & local
  - Interest – mortgage, mortgage insurance premium, investment interest
  - Charitable Contributions – cash & non-cash
  - Casualty & Theft Losses
  - Job Expenses & Certain Miscellaneous Deductions
  - Other Miscellaneous – gambling losses
- **Personal Exemptions**
  - 2016 & 2017 = \$4,050.00

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### Tax Rates

- **Ordinary**
  - Married filing jointly
  - Single
  - Head of Household
  - Married filing separately
- **Capital Gain**
  - Short-term
  - Long-term

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### Tax Brackets for 2016

RATE	SINGLE	MARRIED (JOINT)	HEAD OF HOUSEHOLD
10%	\$0-\$9,275	\$0-\$18,550	\$0-\$13,250
15%	\$9,276-\$37,650	\$18,551-\$75,300	\$13,251-\$50,400
25%	\$37,651-\$91,150	\$75,301-\$151,900	\$50,401-\$130,150
28%	\$91,151-\$190,150	\$151,901-\$231,450	\$130,151-\$210,800
33%	\$190,151-\$413,350	\$231,451-\$413,350	\$210,801-\$413,350
35%	\$413,351-\$415,050	\$413,351-\$466,950	\$413,351-\$441,000
39.6%	\$415,051 and up	\$466,951 and up	\$441,001 and up

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### Tax Brackets for 2017

RATE	SINGLE	MARRIED (JOINT)	HEAD OF HOUSEHOLD
10%	\$0-\$9,325	\$0-\$18,650	\$0-\$13,350
15%	\$9,326-\$37,950	\$18,651-\$75,900	\$13,351-\$50,800
25%	\$37,951-\$91,900	\$75,901-\$153,800	\$50,801-\$131,200
28%	\$91,901-\$190,650	\$153,801-\$233,350	\$131,201-\$212,500
33%	\$190,651-\$416,700	\$233,351-\$416,700	\$212,501-\$416,700
35%	\$416,701-\$418,400	\$416,701-\$470,700	\$416,701-\$444,500
39.6%	\$418,401 and up	\$470,701 and up	\$444,501 and up

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### Tax Rates (cont.)

- Alternative Minimum Tax – 28%

2016 Alternative Minimum Tax Exemptions		2017 Alternative Minimum Tax Exemptions	
Filing Status	Exemption Amount	Filing Status	Exemption Amount
Single	\$53,900	Single	\$54,300
Married Filing Jointly	\$83,800	Married Filing Jointly	\$84,500
Married Filing Separately	\$41,900	Married Filing Separately	\$42,250

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### Tax Rates (cont.)

- Medicare Surtax – 3.8%
- Self-employment – 15.3%
- Marginal Tax Rate – The rate at which additional income is taxed
- Effective Tax Rate
  - Total Taxes Paid/Total Income=Effective Tax Rate

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Make it less taxing



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Make It Less Taxing

- 403(b)
- 457
- Student Loan
- IRA
- Alimony
- Section 125 Cafeteria Plan
  - Premium only Plan
  - Flexible Spending Account
    - Medical Reimbursement Account
    - Dependant Care



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Make It Less Taxing

- 403(b)/457(b)/401(k):
  - \$18,000 + \$6,000 for 50 and over
- IRA:
  - \$5,500 + \$1,000 for 50 and over
- Roth IRA:
  - Income limits on contributing, but anyone can convert funds to a Roth



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### Strategies to Reduce Income (cont.)



- **Itemized Deductions:**
  - Medical
    - Insurance premiums
    - Long-term care premiums
    - Medical expenses
    - Medical Mileage - .10/mile
    - Prescriptions
  - Taxes
    - State & local
    - Real estate
    - Personal property taxes
    - Other taxes – foreign taxes

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### Strategies to Reduce Income (cont.)

- **Itemized Deductions (cont.):**
  - Interest
    - Home mortgage interest
    - HELOC - \$100k
    - Points paid on purchase/refinance
    - Mortgage insurance premium
    - Investment interest
  - Gifts to Charity
    - Gifts by cash or check
    - Gifts other than cash or check
    - Charitable remainder trust
  - Casualty & Theft Losses



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### Strategies to Reduce Income (cont.)

- **Itemized Deductions (cont.):**
  - Job Expenses & Certain Miscellaneous Deductions
    - Unreimbursed employee expenses
      - Home office
      - Mileage
      - Supplies
    - Continuing education
  - Other Miscellaneous
    - Gambling losses
  - Estate Taxes

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**Make it less taxing**

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**Roth IRA**

- Contribute after-tax
- Savings grow tax-deferred
- Earnings may be withdrawn tax-free if requirement met

Any distributions taken from the IRA are tax-free if the Roth IRA is held for at least five years and the individual is age 59½ or older, making a first-time home purchase (lifetime limit of \$10,000 per taxpayer), is disabled or dies.

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**Tax Rules on Retirement Plans**

- Must be 59 & ½ for no penalty
- Required Minimum Distribution – 70 & ½
- Rollovers – Typically not taxed
- Distributions out of 403(b) require mandatory 20% federal withholding
- Distributions out of IRA's no mandatory withholding

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**Roll to new plan**

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**How to roll**

 Indirect Route	Direct Rollover to IRA or new Plan 
<p>You get the check, reinvest yourself</p> <ul style="list-style-type: none"><li>• Potential for taxes (20%) and penalties</li><li>• More work for you</li><li>• Must roll within 60 days</li></ul>	<p>"Plan to plan transfer"</p> <ul style="list-style-type: none"><li>• Money stays tax deferred</li><li>• Easier</li><li>• Less expensive</li></ul>

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### Roll to an IRA

Roll over to an IRA

Pros	Cons
<ul style="list-style-type: none"><li>• Continue tax deferred growth</li><li>• Continue contributions</li><li>• Many investment choices</li><li>• Access to advice<sup>1</sup></li><li>• Consolidate money</li><li>• Estate planning benefits</li><li>• No plan restrictions</li></ul>	<ul style="list-style-type: none"><li>• No plan-specific investment options</li><li>• No loans</li><li>• Must be at least 59½ before taking penalty-free withdrawals<sup>2</sup></li><li>• Potential fees</li></ul>

<sup>1</sup>For an additional charge.  
<sup>2</sup>There are exceptions to this rule if you meet certain conditions known as "502 rollovers".

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### Roll to new plan

**Important:**  
Roll within 60 days  
to avoid taxes and penalties



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### Roll to an IRA



- Pay taxes **now or later?**
- Roth = **tax-free** growth

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### Estate and Gift Taxes

- 2016 estate tax exemption: \$5.45 million
- Top rate is 40%
- 2016 gift tax annual exclusion: \$14,000
- New basis reporting rules
- Estate planning is more than minimizing estate taxes
  - Updating documents
  - Repurposing insurance
  - Privacy
  - Asset protection



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### Education Tax Credits

- American Opportunity Tax Credit
  - Up to \$2,500 for first 4 years post-secondary school
- Lifetime Learning Credit
  - Up to \$2,000 for all post-secondary expenses
- Tuition and Fees Deduction



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### Charitable Contribution Reminders

- Numerous rules on documentation
  - If don't follow the rules, no deduction allowed
- Donation by cash or check
  - Must have proof of payment
- Cash or non-cash donation of \$250 or more
  - Need "contemporaneous written acknowledgment" from the charity
- Non-cash donations over \$500
  - Need details of what was donated, its cost, value and more (see Form 8283)
- Non-cash/non-publicly traded stock worth over \$5,000
  - Need a qualified appraisal
- Clothing and household items
  - Must be in good used condition or better



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**Last-Minute Planning Tips**

- Consult your tax adviser about pre-paying deductible expenses before Dec. 31
  - Tuition due in January
  - Fourth-quarter state estimates
- Harvest capital losses
- Maximize retirement savings
- Avoid mutual fund purchases in December
- Gift appreciated stock
- Don't forget your flexible spending account (FSA)



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**Proposed Trump Tax Rates (cont.)**

Standard Deductions:

- Single: increase from \$6,300 to \$15,000
- Married filing jointly: increase from \$12,600 to \$30,000

Exemptions:

- Eliminates the personal exemption
- Childcare-related tax provisions - \$1,200/child

Eliminates Alternative Minimum Tax

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**Proposed Trump Tax Rates**

Ordinary Income Rate	Long Term Capital Gains/Dividends Rate	Single Filers	Married Joint Filers
12%	0%	\$0 to \$37,500	\$0 to \$75,000
25%	15%	\$37,501 to \$112,500	\$75,001 to \$225,000
33%	20%	\$112,501 and up	\$225,001 and up

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**Proposed Trump Tax Rates (cont.)**

- Eliminates federal estate and gift tax
  - Elimination in step up in basis of inherited assets - \$10 Million



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**Proposed Trump Tax Rates (cont.)**

Corporate Income Tax Rate

35%

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15%

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**Tools & Links**

Use the following link:  
<http://www.fernandezfinancial.com/financial-calc#incomeSection>

- Federal income tax estimator
- Should I adjust my payroll withholdings?
- Should I itemize or take standard deduction?
- 2016 tax refund estimator

<https://www.voya.com/>  
<https://www.irs.gov/>

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Questions?



Contact Edwin S. Fernandez, CPA/PFS  
505-839-0224  
[efernandez@legacyfg.net](mailto:efernandez@legacyfg.net)  
[edwin.fernandez@voyafa.com](mailto:edwin.fernandez@voyafa.com)  
[www.legacyfg.net](http://www.legacyfg.net)

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