SAMALIN

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Why Diversification Matters

When investing, particularly for long-term goals, there is one concept you will likely hear about over and over again — diversification. Why is diversification so important? The simple reason is that it helps ensure that your risk of loss is spread among a number of different investments. The theory is that if some of the investments in your portfolio decline in value, others may rise or hold steady, helping to offsetthe losses.

DIVERSIFYING WITHIN ASSET CLASSES

For example, say you wanted to invest in stocks. Rather than investing in just domestic stocks, you could diversify your portfolio by investing in foreign stocks as well. Or you could choose to include the stocks of different size companies (small-cap, mid-cap, and/or large-cap stocks).

If your primary objective is to invest in bonds for income, you could choose both government and corporate bonds to potentially take advantage of their different risk/return profiles. You might also choose bonds of different maturities, because long-term bonds tend toreact more dramatically to changes in interest rates than short-term bonds. As interest rates rise, bond prices typically fall.

INVESTING IN MUTUAL FUNDS

Because mutual funds invest in a mix of securities chosen by a fund manager to pursue the fund's stated objective, they can offer a certain level of "built-in" diversification. For this reason, mutual funds may be an appropriate choice for novice investors or those wishing to take more of a hands-off approach to their portfolios. Including a variety of mutual funds with different objectives and securities in your portfolio will help diversify your holdings that much more.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

DIVERSIFYING AMONG ASSET CLASSES

You might also consider including a mix of different types of asset classes — stocks, bonds, and cash — in your portfolio. Asset allocation is a strategic approach to diversifying your portfolio. After carefully considering your investment goals, time horizon, and risk tolerance, you would then invest different percentages of your portfolio in targeted asset classes to pursue your goal.

WINNING ASSET CLASSES OVER TIME

The following table, which shows how many times during the past 30 years each asset class has come out on top in terms of performance, helps illustrate why diversifying among asset classes can be important.

	Number of Winning years, 1987-2016
Cash	3
Bonds	5
Stocks	10
Foreign Stocks	12

Performance is from December 31, 1986, to December 31, 2016. Cash is represented by Citigroup 3-month Treasury Bill Index. Bonds are represented by the Citigroup Corporate Bond Index, an unmanaged index. Stocks are represented by the S&P 500 Composite Price Index, an unmanaged index. Foreign stocks are represented by the MSCI EAFE Price Index, an unmanaged index. Investors cannot invest directly in any index. However, these indexes are accurate reflections of the performance of the individual asset classes shown. Returns reflect past performance and should not be considered indicative of future results. The returns do not reflect taxes, fees, brokerage commissions, or other expenses typically associated with investing.

The principal value of cash alternatives may fluctuate with market conditions. Cash alternatives are subject to liquidity and credit risks. It is possible to lose money with this type of investment. The return and principal value of stocks may fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost.

U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest, whereas corporate bonds are not. The principal value of bonds may fluctuate with market conditions. Bonds are subject to inflation, interest rate, and credit risks. Bonds redeemed prior to maturity may be worth more or less than their original cost.

The risks associated with investing on a worldwide basis include differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country.

Investments offering the potential for higher rates of return also involve higher risk.

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Westchester
297 King Street
Chappaqua, NY 10514
914.666.6600
FAX: 914.666.6602

New York City
One Grand Central Place
Suite 4600
New York, NY 10165
212.750.6200
FAX: 212.750.6208

Samalin Investment Counsel is a fee-only, nationally recognized SEC registered investment advisory firm. With offices in Chappaqua NY and NYC, we specialize in wealth management, pre and post divorce financial planning, retirement planning, and other related financial services.

Grandparents Can Help Bridge the College Gap

For many families, a college education is a significant financial burden that is increasingly hard to meet with savings, current income, and a manageable amount of loans. For some, the ace in the hole might be grandparents, whose added funds can help bridge the gap. If you're a grandparent who would like to help fund your grandchild's college education, here are some strategies.

529 college savings plan

A 529 college savings plan is one of the best vehicles for multigenerational college funding. 529 plans are offered by states and managed by financial institutions. Grandparents can open a 529 account on their own — either with their own state's plan or another state's plan — and name their grandchild as beneficiary (one grandchild per account), or they can contribute to an existing 529 account that has already been established for that grandchild (for example, by a parent).

Once a 529 account is open, grandparents can contribute as much or as little as they want, subject to the individual plan's lifetime limits, which are typically $300,000 and up. Grandparents can set up automatic monthly contributions or they can gift a larger lump sum — a scenario where 529 plans really shine.

Contributions to a 529 plan accumulate tax deferred (which means no taxes are due on any earnings made along the way), and earnings are completely tax-free at the federal level (and typically at the state level) if account funds are used to pay the beneficiary's qualified education expenses. (However, the earnings portion of any withdrawal used for a non-education purpose is subject to income tax and a 10% penalty.)

Under rules unique to 529 plans, individuals can make a lump-sum gift of up to $70,000 ($140,000 for joint gifts by a married couple) and avoid federal gift tax by making a special election on their tax return to treat the gift as if it were made in equal installments over a five-year period. After five years, another lump-sum gift can be made using the same technique. This strategy offers two advantages: The money is considered removed from the grandparents' estate (unless a grandparent were to die during the five-year period, in which case a portion of the gift would be recaptured), but grandparents still retain control over their contribution and can withdraw part or all of it for an unexpected financial need (the earnings portion of such a withdrawal would be subject to income tax and a 10% penalty, though).

What happens at college time if a grandchild gets a scholarship? Grandparents can seamlessly change the beneficiary of the 529 account to another grandchild, or they can make a penalty-free withdrawal from the account up to the amount of the scholarship (though they would still owe income tax on the earnings portion of this withdrawal).

Finally, a word about financial aid. Under current federal financial aid rules, a grandparent-owned 529 account is not counted as a parent or student asset, but withdrawals from a grandparent-owned 529 account are counted as student income in the following academic year, which can decrease the grandchild's eligibility for financial aid in that year by up to 50%. By contrast, parent-owned 529 accounts are counted as parent assets up front, but withdrawals are not counted as student income — a more favorable treatment.

Outright cash gifts

Another option for grandparents is to make an outright gift of cash or securities to their grandchild or his or her parent. To help reduce any potential gift tax implications, grandparents should keep their gift under the annual federal gift tax exclusion amount — $14,000 for individual gifts or $28,000 for joint gifts. Otherwise, a larger gift may be subject to federal gift tax and, for a gift made to a grandchild, federal generation-skipping transfer tax, which is a tax on gifts made to a person who is more than one generation below you. An outright cash gift to a grandchild or a grandchild's parent will be considered an asset for financial aid purposes. Under the federal aid formula, students must contribute 20% of their assets each year toward college costs, and parents must contribute 5.6% of their assets.

Pay tuition directly to the college

For grandparents who are considering making an outright cash gift, another option is to bypass grandchildren and pay the college directly. Under federal law, tuition payments made directly to a college aren't considered taxable gifts, no matter how large the payment. This rule is beneficial considering that tuition at many private colleges is now over $40,000 per year. Only tuition qualifies for this federal gift tax exclusion; room and board aren't eligible.

Aside from the benefit of being able to make larger tax-free gifts, paying tuition directly to the college ensures that your money will be used for education purposes. However, a direct tuition payment might prompt a college to reduce any potential grant award in your grandchild's financial aid package, so make sure to ask the college about the financial aid impact of your gift.

Assets in 529 plans reached $266.2 billion, spread over 12.7 million accounts, as of the second quarter of 2016.

Source: College Savings Plans Network, 529 Report: An Exclusive Mid-Year Review of 529 Plan Activity, September 2016

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing, along with each plan's specific investment options, underlying investments, and investment company. More information can be found in the plan's official disclosure statements and prospectus, which should be read carefully before investing. As with any investment, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that your underlying investments may lose money or not perform well enough to cover college costs as anticipated. Finally, be aware that your ability to take advantage of any 529 plan state tax benefits may be contingent on your enrollment in your own state's 529 plan.*

TAX TIPS

FOR THE SELF-EMPLOYEED

Being self-employed has many advantages — the opportunity to be your own boss and come and go as you please, for example. However, it also comes with unique challenges, especially when it comes to how to handle taxes. Whether you're running your own business or thinking about starting one, you'll want to be aware of the specific tax rules and opportunities that apply to you.

UNDERSTAND THE SELF-EMPLOYMENT TAX

When you worked for an employer, payroll taxes to fund Social Security and Medicare were split between you and your employer. Now you must pay a self-employment tax equal to the combined amount that an employee and employer would pay. You must pay this tax if you had net earnings of $400 or more from self-employment.

The self-employment tax rate on net earnings (up to $127,200 in 2017) is 15.3%, with 12.4% going toward Social Security and 2.9% allotted to Medicare. Any amount over the earnings threshold is generally subject only to the Medicare payroll tax. However, self-employment and wage income above $200,000 is generally subject to a 0.9% additional Medicare tax. (For married individuals filing jointly, the 0.9% additional tax applies to combined self-employment and wage income over $250,000. For married individuals filing separately, the threshold is $125,000.)

If you file Form 1040, Schedule C, as a sole proprietor, independent contractor, or statutory employee, the net income listed on your Schedule C (or Schedule C-EZ) is self-employment income and must be included on Schedule SE, which is filed with your Form 1040. Schedule SE is used both to calculate self-employment tax and to report the amount of tax owed. You can deduct one-half of the self-employment tax paid (but not any portion of the Medicare surtax) when you compute the self-employment tax on Schedule SE.

MAKE ESTIMATED TAX PAYMENTS ON TIME

When you're self-employed, you'll need to make quarterly estimated tax payments (using IRS Form 1040-ES) to cover your federal tax liability. You may have to make state estimated tax payments as well. Estimated tax payments are generally due each year on the 15th of April, June, September, and January. If you fail to make estimated tax payments on time, you may be subject to penalties, interest, and a large tax bill at the end of the tax year. For more information, see IRS Publication 505, Tax Withholding and Estimated Tax.

INVEST IN A RETIREMENT PLAN

If you are self-employed, it is up to you and you alone to save sufficient funds for retirement. Investing in a retirement plan can help you save for retirement and also provide numerous tax benefits. A number of retirement plans are suited for self-employed individuals:

- SEP IRA plan
- SIMPLE IRA plan
- SIMPLE 401(k) plan
- "Individual" 401(k) plan

The type of retirement plan you choose will depend on your business and specific circumstances. Explore your options and be sure to consider the complexity of each plan. In addition, if you have employees, you may have to provide retirement benefits for them as well. For more information, consult a tax professional or see IRS Publication 560, Retirement Plans for Small Businesses.

TAKE ADVANTAGE OF BUSINESS DEDUCTIONS

If you have your own business, you can deduct some of the costs of starting the business, as well as the current operating costs of running that business. To be deductible, business expenses must be both ordinary (common and accepted in your field of business) and necessary (appropriate and helpful for your business).

Since business deductions will lower your taxable income, you should take advantage of any deductions to which you are entitled. You may be able to deduct a variety of business expenses, such as start-up costs, home office expenses, and office equipment.

DEDUCT HEALTH-CARE EXPENSES

If you qualify, you may be able to benefit from the self-employed health insurance deduction, which would enable you to deduct up to 100% of the cost of health insurance that you provide for yourself, your spouse, your dependents, and employees.

In addition, if you are enrolled in a high-deductible health plan, you may be able to establish and contribute to a health savings account (HSA), which is a tax-advantaged account into which you can set aside funds to pay qualified medical expenses. Contributions made to an HSA account are generally tax deductible. (Depending upon the state, HSA contributions may or may not be subject to state taxes.)

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/CD
Moody's Investors Services	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 thev 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.*

Do I need to file a gift tax return?

If you transfer money or property to anyone in any year without receiving something of at least equal value in return, you may need to file a federal gift tax return (Form 709) by the April tax filing deadline. If you live in one of the few states that also impose a gift tax, you may need to file a separate gift tax return with your state as well.

Not all gifts, however, are treated the same. Some gifts aren't taxable and generally don't require a gift tax return. These exceptions include:

- Gifts to your spouse that qualify for the marital deduction

- Gifts to charities that qualify for the charitable deduction (Filing is not required as long as you transfer your entire interest in the property to qualifying charities. However, if you are required to file a return to report gifts to noncharitable beneficiaries, all charitable gifts must be reported as well.)

- Qualified amounts paid on someone else's behalf directly to an educational institution for tuition or to a provider for medical care

- Annual exclusion gifts totaling $14,000 or less for the year to any one individual (However, you must file a return to split gifts with your spouse if you want all gifts made by either spouse during the year treated as made one-half by each spouse — enabling you and your spouse to effectively use each other's annual exclusion.)

If your gift isn't exempt from taxation, you'll need to file a gift tax return. But that doesn't mean you have to pay gift tax. Generally, each taxpayer is allowed to make taxable gifts totaling $5,490,000 (in 2017, up from $5,450,000 in 2016) over his or her lifetime before paying any gift tax. Filing the gift tax return helps the IRS keep a running tab on the taxable gifts you have made and the amount of the lifetime exclusion you have used.

If you made a gift of property that's hard to value (e.g., real estate), you may want to report the gift, even if you're not required to do so, in order to establish the gift's taxable value. If you do, the IRS generally has only three years to challenge the gift's value. If you don't report the gift, the IRS can dispute the value of your gift at any time in the future

WHAT'S THE DIFFERENCE BETWEEN A DIRECT AND INDIRECT ROLLOVER?

If you're eligible to receive a taxable distribution from an employer-sponsored retirement plan [like a 401(k)], you can avoid current taxation by instructing your employer to roll the distribution directly over to another employer plan or IRA. With a direct rollover, you never actually receive the funds.

You can also avoid current taxation by actually receiving the distribution from the plan and then rolling it over to another employer plan or IRA within 60 days following receipt. This is called a "60-day" or "indirect" rollover.

But if you choose to receive the funds rather than making a direct rollover, your plan is required to withhold 20% of the taxable portion of your distribution (you'll get credit for the amount withheld when you file your federal tax return). This is true even if you intend to make a 60-day rollover. You can still roll over the entire amount of your distribution, but you'll need to make up the 20% that was withheld using other assets.

For example, if your taxable distribution from the plan is $10,000, the plan will withhold $2,000 and you'll receive a check for $8,000. You can still roll $10,000 over to an IRA or another employer plan, but you'll need to come up with that $2,000 from your other funds.

Similarly, if you're eligible to receive a taxable distribution from an IRA, you can avoid current taxation by either transferring the funds directly to another IRA or to an employer plan that accepts rollovers (sometimes called a "trustee-to-trustee transfer"), or by taking the distribution and making a 60-day indirect rollover (20% withholding doesn't apply to IRA distributions).

Under recently revised IRS rules, you can make only one tax-free, 60-day, rollover from any IRA you own (traditional or Roth) to any other IRA you own in any 12-month period. However, this limit does not apply to direct rollovers or trustee-to-trustee transfers.

Because of the 20% withholding rule, the one-rollover-per-year rule, and the possibility of missing the 60-day deadline, in almost all cases you're better off making a direct rollover to move your retirement plan funds from one account to another.

Can the IRS waive the 60-day IRA rollover deadline?

If you take a distribution from your IRA intending to make a 60-day rollover, but for some reason the funds don't get to the new IRA trustee in time, the tax impact can be significant. In general, the rollover is invalid, the distribution becomes a taxable event, and you're treated as having made a regular, instead of a rollover, contribution to the new IRA. But all may not be lost. The 60-day requirement is automatically waived if all of the following apply:

- A financial institution actually receives the funds within the 60-day rollover period.

- You followed the financial institution's procedures for depositing funds into an IRA within the 60-day period.

- The funds are not deposited in an IRA within the 60-day rollover period solely because of an error on the part of the financial institution.

- The funds are deposited within one year from the beginning of the 60-day rollover period.

- The rollover would have been valid if the financial institution had deposited the funds as instructed.

If you don't qualify for this limited automatic waiver, the IRS can waive the 60-day requirement "where failure to do so would be against equity or good conscience," such as a casualty, disaster, or other event beyond your reasonable control. However, you'll need to request a private letter ruling from the IRS, an expensive proposition — the filing fee alone is currently $10,000.

Thankfully, the IRS has just introduced a third way to seek a waiver of the 60-day requirement: self-certification. Under the new procedure, if you've missed the 60-day rollover deadline, you can simply send a letter to the plan administrator or IRA trustee/custodian certifying that you missed the 60-day deadline due to one of 11 specified reasons. To qualify, you must generally make your rollover contribution to the employer plan or IRA within 30 days after you're no longer prevented from doing so. Also, there is no IRS fee.

The downside of self-certification is that if you're subsequently audited, the IRS can still review whether your contribution met the requirements for a waiver. For this reason, some taxpayers may still prefer the certainty of a private letter ruling from the IRS.

RETIREMENT: Picking the Right Plan for You and Your Practice

Palmer Price - PUBLISHED: Thursday, March 23, 2017

When you're running a business, the daily demands keep you plenty busy.

Not only do you have to worry about your patients, but you also have to pay bills and balance the books.

Along the way, don't forget about planning for your future.

That means you need a retirement plan.

“These plans can be great for owners who want to save money for retirement and save money on taxes,” said Amy Noel, a Boulder, Colorado-based certified financial planner.

Whether you're a solo practitioner or you have a practice with dozens of employees, and whether you want to save a lot or a little, there's a plan to suit your needs.

Here's some help to get started.

SEP IRA

SEP IRA is short for simplified employee pension individual retirement account.

It is funded solely by employer contributions and provides the employer flexibility so that in lean years, the contribution can be skipped, said Andrew Samalin, a certified financial planner with offices in Chappaqua, New York, and New York City.

He said for the SEP IRA, an employer can contribute up to 25 percent of compensation — which is about 20 percent of the Internal Revenue Service (IRS) Schedule C net income and based on maximum compensation of $270,000 for 2017 — with a maximum of $53,000 per participant.

A SEP IRA must be offered to all employees who are at least 21 years old, employed for three of the last five years and who had compensation of $600 for 2015 and 2016.

So, if you have a lot of part-timers, they'd probably be eligible for the plan.

Because part-time employee wages would presumably make up a small percentage of overall wages, a SEP IRA would not be too expensive for the business owner, he said.

“Contributions must be based on the same percentage for all participants and are immediately vested,” he said. “An employer may use IRS Form 5305-SEP to set up the plan but the costs to administer are low.”

And a bonus? Tax benefits. The business owner can deduct no more than 25 percent of aggregate compensation for all participants.

SIMPLE IRA

Another option is the SIMPLE IRA, which stands for Savings Incentive Match Plan for Employees Individual Retirement Account.

"The SIMPLE includes anyone who makes over $5,000 as an eligible participant," Noel said.

Employees can defer $12,500 — or $15,500 for those over age 50 — and the employer is required to contribute each year by matching employee contributions up to 3 percent of compensation. Or, the employer can make a non-elective contribution equal to 2 percent of employee compensation up to annual limit of $270,000 ($5,400) in 2017.

Samalin said this plan may be less expensive than a SEP IRA because some of the employees may choose not to participate.

SAFE HARBOR 401(K)

The Safe Harbor 401(k)/Profit Sharing Plan has a higher cost of administration and a higher potential cost of funding for employees, but also allows for high contribution limits. You can use employee salary deferrals for these plans, and they're easier to administer than a traditional 401(k). Samalin said you can offer employee-vesting schedules to incentivize long-term employment and lower turnover.

Anyone who works more than 1,000 hours a year would be eligible, Noel said.

“So, if you have part-timers that work less than 20 hours a week, a 401(k) can be an option,” she said. "Typically, most employers will choose a Safe Harbor plan which mandates a 4 percent match for participants or a 3 percent non-elective contribution for all eligible employees.”

SOLO 401(K)

If you have no employees, or only your spouse works with you, you could consider a Solo 401(k).

These plans allow the business owner and spouse to contribute elective deferrals up to 100 percent of compensation as the employee, up to $18,000 for 2017, plus there's a catch-up contribution of $6,000 for those over age 50.

Then as the employer, the business owner may also contribute up to 25 percent of compensation or earned income.

“Total employee and employer contributions, not counting catch-up contributions, may not exceed $54,000 for 2017,” Samalin said. "Business owners must file Form 5500 after plan assets exceed $250,000."

With this plan, you can still contribute to a traditional or Roth IRA every year, too.

OTHER OPTIONS

You can always consider a traditional 401(k), but that's usually best for a business with several dozen employees because they're more expensive to maintain and have stricter reporting requirements than some other plans.

A defined benefit plan is another option, Noel said, and could be appropriate for those who want to aggressively save for retirement and who don’t mind the extra costs associated with the plan.

“This is not a good plan for a large group or one with many employees,” she said.

FLEXIBILITY

Because you may have trouble projecting your practice's income from year to year, you may prefer to choose the plan with the most flexibility.

Noel said a SEP IRA is the only plan that “truly has discretionary contributions.”

All the others have "substantial and reoccurring requirements," she said.

“A SIMPLE has an option that allows the employer to lower the contribution from 3 percent to 1 percent in two out of every five years,” Noel said. “This is helpful in this situation but the company still needs to fund the 1 percent.”

GETTING STARTED

Consider meeting with a certified financial planner who has expertise in small business retirement plans.

You can search for an adviser in your area on the websites of the Financial Planning Association at www.plannersearch.org or the National Association of Personal Financial Advisors at www.napfa.org.

You can also contact a plan custodian such as Vanguard or Fidelity.

"The laws are written to allow for employees to succeed alongside management when a retirement plan is set up," Samalin said. “As such, retirement plans are structured to require management to make contributions to an employee’s retirement if the employer is making contributions to their retirement.”

SAMALIN
INVESTMENT COUNSEL

Westchester
297 King Street
Chappaqua, NY 10514

New York City
One Grand Central Place
Suite 4600
New York, NY 10165

7th Annual Crown House Memorial Day Celebration

On May 29th, The Crown House (SICounsel's main location at 297 King Street, in Chappaqua, NY) will host its 7th Annual Memorial Day Celebration. In honor of our fallen American heroes, the Chappaqua Memorial Day Parade marches down King Street, and includes veterans, revolutionary war re-enactors, local and national politicians, area fire and rescue organizations, and local high school bands. As word has spread, attendance has grown steadily with friends and families enjoying live music, patriotic face painting, Maurice's Magic Show, food, refreshments, and prime seating along the parade route. So mark your calendars and bring the family. Food and entertainment start at 9:00 am and the parade comes through around 10:00 am. ***See you there!***