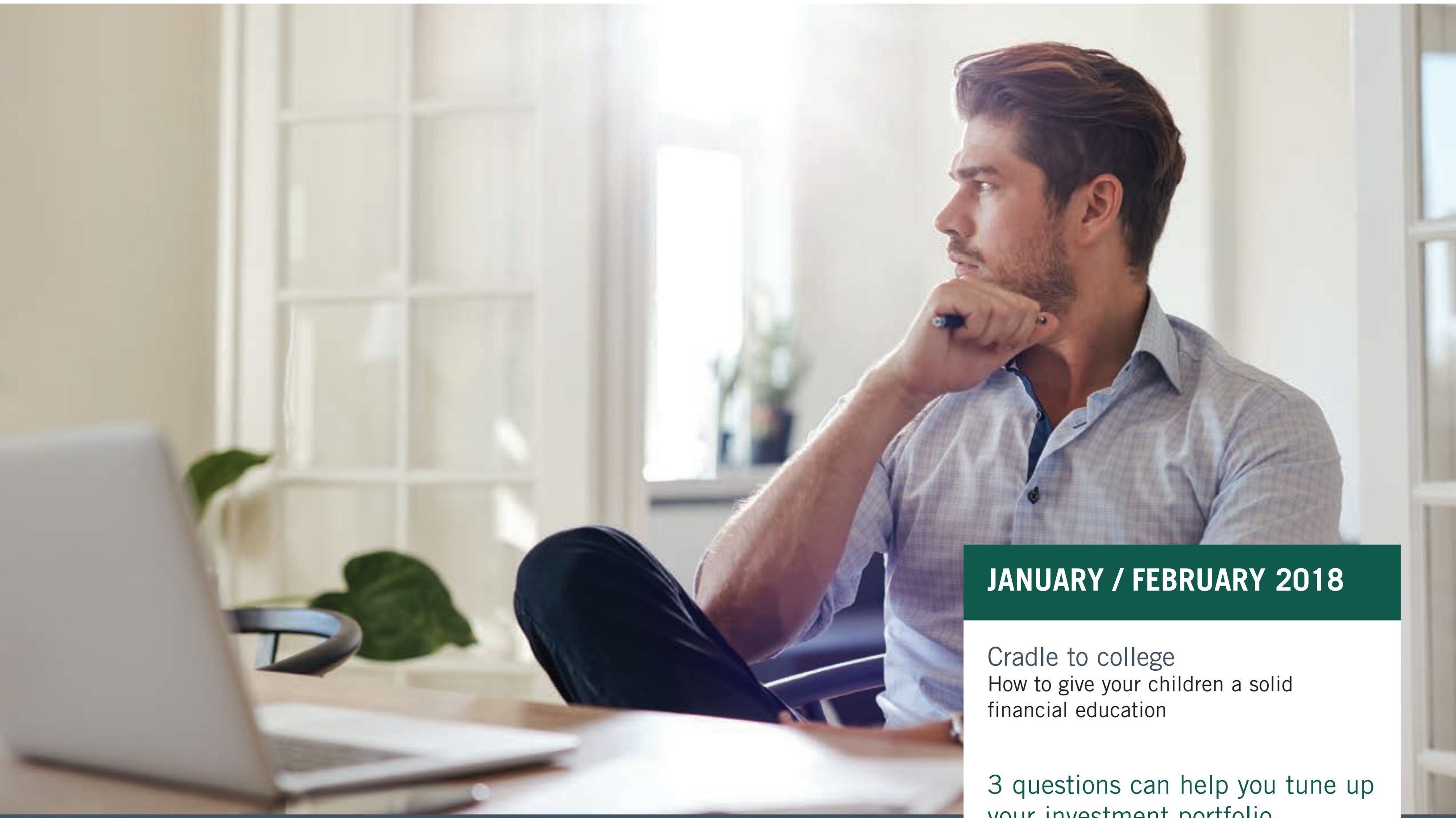
WEALTH MANAGEMENT ADVISOR



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START THE YEAR RIGHT: REVIEW WITHHOLDING AND ESTIMATE TAX PAYMENTS

Start the year right: Review withholding and estimate tax payments

Has this ever happened to you? Income tax time rolls around and you realize that over the course of the year you haven't withheld enough or made estimated tax payments that you should have. You owe the IRS money — possibly a lot of money — even before factoring in underpayment penalties and interest.

Many taxpayers make this mistake only once. Thereafter, they regularly review their withholding and submit quarterly tax payments when necessary. Here's why this is smart.

Adjust to fit

IRS withholding tables are designed to approximate a "typical" worker's tax liability for the year. But not all workers are typical. Depending on your earnings, marital status and other tax circumstances, following the tables may result in underpayment or overpayment. A more reliable approach is to determine your actual expected tax liability regularly and, possibly, adjust your withholding amounts by completing a new Form W-4.

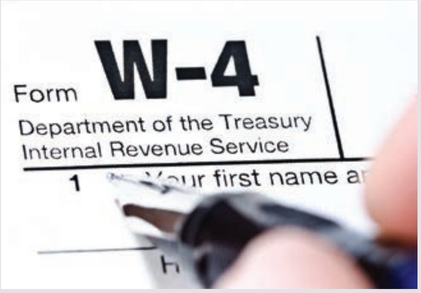
You should also revisit your withholding amounts after certain life changes that affect your tax liability. Examples include a new job, marriage or divorce, the birth or adoption of a child, or unemployment.

Generally, you're required to make estimated tax payments if you have income that's not subject to withholding (see "Take care with income not subject to withholding" below) and you

TAKE CARE WITH INCOME NOT SUBJECT TO WITHHOLDING

Employers are required to withhold income tax from cash and noncash wages, salaries, and commissions based on employees' Forms W-4 and IRS withholding tables. However, you may earn other taxable income that isn't subject to withholding, such as:

- Self-employment,
- Nonsalary from pass-through businesses, such as partnerships, S corporations and limited liability companies,
- Investment — including interest, dividends and capital gains, and
- Rental or royalty.



If such income is significant, you should make estimated tax payments.

Of course, there's another type of income — nontaxable. In general, you don't need to have withholding or pay estimated tax on child support, gifts, inheritances, qualified scholarships or life insurance policy payouts (as long as you're the beneficiary, not the policyholder).

expect to owe $1,000 or more in federal taxes after taking into account withheld taxes and credits. To meet estimated tax obligations, figure out your expected tax liability for the year, subtract expected withholdings and credits, and pay the remainder in four equal installments on or before April 15, June 15, September 15 and January 15. (If the 15th falls on a weekend, the payment due date generally is the following business day, but check with the IRS.)

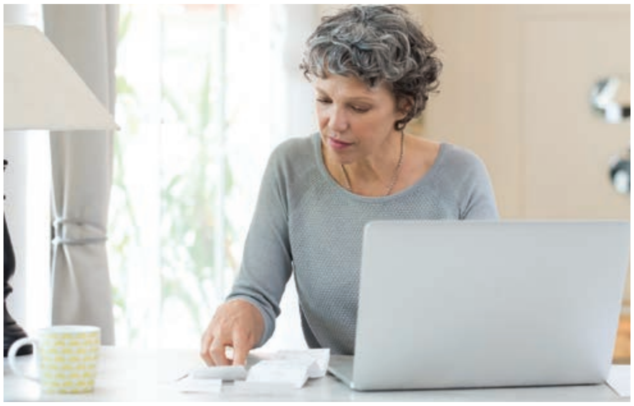
The problem with estimates

You'll be subject to underpayment penalties if your total withholdings and timely estimated tax payments are less than 90% of your tax liability for the year (unless you owe less than $1,000 in taxes). Penalties may also apply if you skip or underpay an estimated tax installment, even if your remaining installments cover your entire tax liability. Suppose, for example, that your estimated tax liability for the year is $30,000. If you skip the April payment and pay $10,000 on the following three due dates, you'll owe penalties for skipping the first installment, even if your remaining payments cover your entire tax liability.

The problem with estimated taxes is that they're just that: estimated. Income can be unpredictable, and if you receive unexpected income — particularly late in the year — you can easily fall short of your tax obligations.

Two methods

Fortunately, there are strategies you can use to avoid penalties. If you receive income unevenly during the year, use the annualized income installment method to match your estimated tax payments to your actual income, deductions and other tax attributes during each period. This method is a bit complicated — essentially, it requires you to determine each estimated tax installment based on the amount that would be due if your tax liability through the most recent period were annualized. But it's worth calculating



because the method may enable you to reduce or eliminate underpayment penalties.

Alternatively, you can use a "safe harbor." Under the safe harbor, you won't owe penalties if you pay 100% of last year's tax liability in four equal installments. The amount increases to 110% if your adjusted gross income last year was greater than $150,000 ($75,000 for married couples filing separately). Generally, the safe harbor is the simplest way to ensure that you won't owe estimated tax penalties. But keep in mind that, if your income declines this year, you'll end up overpaying. And if your income increases substantially this year, you won't owe penalties but you'll have to pay up by the April due date to cover additional tax.

What if you discover during the year that you haven't paid enough in estimated taxes? Consider increasing withholding from your wages (or your spouse's wages) to make up the difference. Although increasing your estimated tax payments late in the year won't necessarily help you avoid penalties, withholdings are treated as though they were paid evenly throughout the year, regardless of their timing.

Getting help

Because estimating tax payments can be complicated, ask your tax advisor for help. Armed with informed estimates, you can confidently adjust your withholdings and quarterly tax payments. ■

Cradle to college

How to give your children a solid financial education

Parents need to teach their children a lot in their early years, including how to walk and talk, and you may think that money management is something that can be put off for later. But if you want your children to become financially responsible adults, their fiscal education should start early.

Tell tots about needs and wants

Although it might seem like jumping the gun, even 3- and 4-year-olds can begin grasping concepts such as needs and wants, as well as the idea that most people can't buy everything they see. So it's important to start explaining to these tots about the relationship between work and money.

A trip to the supermarket can be a great learning experience. Point out to your kids how different products cost different amounts, and explain when you feel it's worth spending more and when a lower-cost version will suffice.

Give grade-schoolers an allowance

Grade school often is the time when parents provide allowances as a way to help their children live within a budget. Before handing over the cash, however, talk with your child about the purchases you expect the allowance to cover, such as video games. Otherwise, you may get ongoing "requests" to handle expenses your offspring believes shouldn't come from his or her allowance.

Also introduce values to the discussion. Younger children are quite capable of grasping the concept of using their money and other resources to help those who don't have as much. The value of delayed gratification — or saving for big-ticket items and longer-term goals — is another idea you might want to impart.

Moreover, it's important to think through the relationship between your child's allowance and the chores he or she is expected to handle. Some parents view an allowance as strictly a money management tool and that, as members of the family, the kids should have chores that they're expected to handle *without* compensation. Of course, this isn't to say that a child can't receive extra payment for handling chores that go above and beyond day-to-day tasks.

Trust tweens to make bigger decisions

As your child gains experience handling small amounts of money, ask for his or her input on financial decisions. Before heading out to buy new school clothes, for example, discuss what items your child needs the most, and whether it makes sense to buy several less expensive items, or one pricier product.

Given how tuned-in many "tweens" are, discuss with them how advertisements are designed to prompt consumers' desire for a specific brand or product. As an example, point out that a popular brand of shoes costs significantly more than a store brand, and ask your child if the difference in cost is worth it.

Middle-school years are also a perfect time to open a bank account in your child's name. Use this opportunity to explain how to record deposits and withdrawals, and provide a simple calculation to demonstrate the compounding effect of interest.

Help high-schoolers become independent

High-schoolers can be expected to take on greater responsibility for their own expenses — including clothes, entertainment, mobile phone use and transportation costs. When practical, bring your teenager into the discussion when you're researching major purchases, such as a new car. He or she can read product reviews and descriptions, and compare features and prices. Just make it clear at the outset that you'll have the final decision.

If you believe your teen is ready to handle a credit card, a safe way to start is with a secured card. As its name suggests, this line of credit is secured by cash deposited in the account. Once your child has proven to be capable of handling the line of credit, you may decide to allow him or her to open a regular credit card. But make sure you review the rules of responsible credit card use and the speed with which debt and interest expense can add up.

Consider college students adults

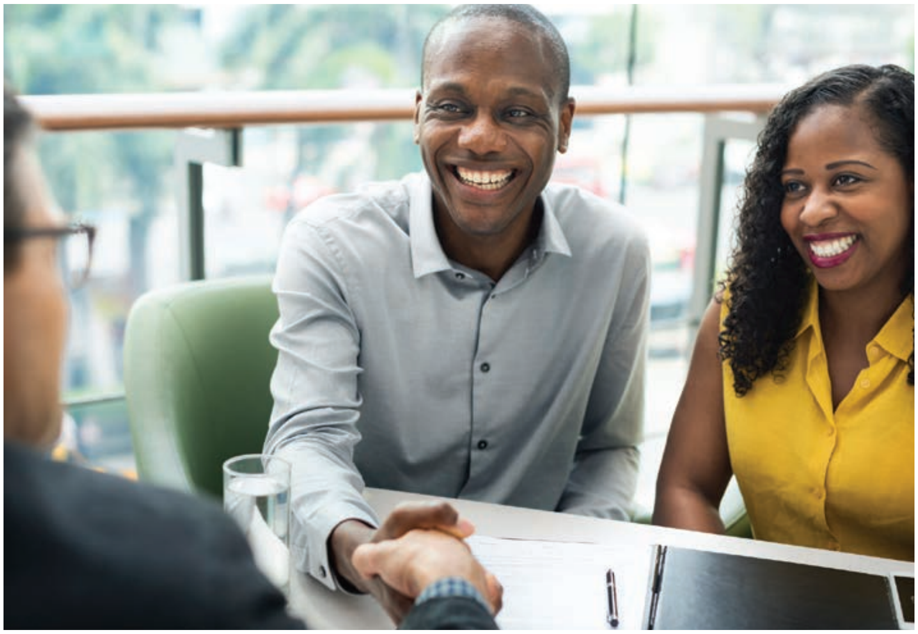
When your kids head to college, they'll probably make most of their own day-to-day financial decisions and may also assume the long-term burden of student loan debt. These are adult responsibilities; make sure your children are ready for them. ■

3 questions can help you tune up your investment portfolio

Your financial portfolio is always a work in progress. No matter how carefully you match your investments to your goals, changing market conditions and life's evolving priorities have a cumulative effect — until one day you realize that your portfolio is no longer aligned with your objectives. To remain financially healthy, periodically re-evaluate your investments by asking these three questions.

1. Has my portfolio changed?

Over time, you're likely to find that your asset mix has drifted from your original target. For example, the percentages devoted to stocks, bonds and alternative investments, or between categories of an individual asset class, such as small- vs. large-cap stocks, generally shift over time.



make sure these investments continue to serve their intended purpose in your portfolio. For individual stocks, for example, reassess the business fundamentals of the underlying companies. With mutual funds, make sure their underlying strategy and management haven't changed. You'll also want to compare long-term results to those of a relevant benchmark to ensure your funds are still meeting your expectations.

If one asset type has performed particularly well (or poorly), your carefully thought-out allocation might look very different today than it did when you first set it up. Specifically, market movements may have left one or more of your asset classes over- or underrepresented relative to your target. If this happens, you may decide to rebalance your portfolio — selling a portion of one type of security that has outperformed and adding to a type that has underperformed.

Be aware that rebalancing your portfolio may have tax implications. Ask your advisor how often you should do so, given your individual situation.

2. Have my investments changed?

In addition to your portfolio's allocations, your individual investments can also change over time. Stocks and mutual funds are rarely "set it and forget it" investments, as business conditions are constantly shifting and the prices at which the securities are trading are always in flux.

If you own individual securities or mutual funds, you'll want to work with your advisor to

3. Has my personal situation changed?

Your financial situation and your goals change over time, and a portfolio that suited you in the past may no longer be appropriate. For example, as you near retirement, your capacity to handle investment risk may change as the number of income-earning years ahead of you decreases. In such a situation, you might want to pivot toward income-oriented securities and reduce your exposure to the kind of volatile assets you owned earlier in your investing years.

Other personal factors come into play as well. Marriage, the birth of a child, a career change or increased responsibilities for aging parents could all result in revised financial objectives. When your objectives change, your portfolio will likely need to change with them.

Get to work

A portfolio that's in sync with evolving market conditions and your financial situation involves regular portfolio checkups with your advisor. Together, you can determine the optimal schedule for rebalancing your investment mix and review your goals to make sure you're appropriately invested for the future you envision. ■

Don’t get taxed twice on nondeductible IRA contributions

Do you make nondeductible contributions to a traditional IRA? If so, you need to understand the tax treatment of distributions to ensure you’re not taxed twice on the same income.

Justify your strategy

There are several reasons why you might contribute nondeductible amounts to an IRA:

1. You or your spouse has a retirement plan at work and your income exceeds the threshold, reducing or eliminating your IRA deductions.
2. Your income is too high to qualify for a Roth IRA contribution.
3. You still wish to make the maximum contribution (currently, $5,500 per year; $6,500 if you’re 50 or older) to take advantage of tax-free growth.

But for this strategy to make sense, you need to ensure that you’re not paying tax on IRA distributions of nondeductible (and, therefore, previously taxed) contributions. This will require you to calculate the portion of each distribution attributable to deductible and nondeductible contributions and file Form 8606 with your federal income tax return.

Do the math

To illustrate the procedure: Nick has $500,000 in his traditional IRA as of November 1, 2017. Of that balance, $125,000 is attributable to deductible contributions, $200,000 to nondeductible contributions and $175,000 to investment earnings within the IRA. Nick takes a $50,000 distribution from the IRA and reports the entire amount as taxable income on his 2017 return. By doing so, he pays tax a second time on the portion of the distribution attributable to nondeductible contributions, which were already taxed in the years he made those contributions.

To avoid double taxation, Nick must determine the portion of his distribution that’s attributable to nondeductible contributions. Suppose the IRA’s balance is $475,000 on December 31, 2017 — $500,000 less the $50,000 distribution plus additional earnings after November 1. To determine the nontaxable portion of the distribution, Nick adds the $50,000 distribution to his IRA’s year-end balance (for a total of $525,000) and divides nondeductible contributions ($200,000) by that amount. He multiplies the resulting percentage — 38% — by the $50,000 distribution to determine the nontaxable portion ($19,000). Because $19,000 of Nick’s distribution has come from nondeductible contributions, those are reduced by $19,000 (to $181,000) for purposes of future distributions.

Handle with care

A word of caution: You can’t avoid taxes altogether by making nondeductible contributions to a separate account and then taking distributions from that account. For tax purposes, the IRS treats all traditional IRAs as a single IRA. So your distributions will consist of a combination of taxable and nontaxable funds, regardless of which account they come from. ■