



# The Mosaic Financial Group LLC

Your Wealth Management Partner

## New “Tax Extenders” Law Has Even Greater Reach

Unlike past legislation that granted a temporary reprieve to expired and expiring tax breaks, the new “Protecting Americans from Tax Hikes” (PATH) Act of 2015 goes further, modifying some provisions and making several of them permanent.

### Permanent Tax Breaks in PATH Act

These provisions, most of which had expired after 2014, now have been reinstated for 2015 and made permanent, with some modifications.

**Section 179 deduction:** The maximum annual Section 179 deduction for buying new or used business property, which had plunged to \$25,000 after 2014, is reinstated to \$500,000. Once you’ve spent \$2 million, the deduction is reduced by a dollar for every additional dollar you spend. These figures will be indexed for inflation in future years.

**Depreciation write-offs:** This lets you recover the cost of qualified leasehold, restaurant and retail improvements in 15 years rather than 39. This provision is extended retroactively and made permanent.

**Child tax credit:** Parents can benefit from an enhanced, potentially refundable child credit. Scheduled to expire after 2017, it’s preserved for parents who owe taxes.

**American Opportunity Tax Credit:** Parents of college students will

continue to be able to claim a maximum American Opportunity Tax Credit (AOTC) of \$2,500, phased out based on modified adjusted gross income (MAGI). The credit maximum had been scheduled to drop to \$1,800 in 2017.

### Gifts of conservation property:

Under the new law, if you donate property for conservation purposes you can take a deduction of up to 50% of your adjusted gross income (AGI)—or 100% if you’re a farmer or rancher. That contrasts with the usual 30%-of-AGI limit. And you now can carry forward any excess amount for as long as 15 years instead of five years.

**Charitable gifts from IRAs:** If you’re older than 70½ you again can give a maximum of \$100,000 directly from your IRA to a charity without tax liability. That doubles to \$200,000 if you give with your spouse.

**Research credit:** This credit, for spending by your business on research and development, is now permanent. The new law also includes other breaks for small businesses.

**State and local sales taxes:** This optional deduction, taken in lieu of a deduction for income taxes that you pay, is now a permanent part of the tax code.



## Spotlight On... Craig Stepnicka



Chelsea Advisors through me, Craig Stepnicka, its owner, combined with Mosaic at

the beginning of 2016. My career started with Arthur Young at what is now the AMA building where I was a tax partner and director of the Chicago office personal financial planning service.

I left AY to learn the investment business at a suburban RIA firm. Ultimately, as a forever city person, I left to create Chelsea, an RIA firm with responsibility for investing for high net worth clients, providing tax preparation, and consulting on a wide range of issues confronting people with money. I also avoided the commute to the suburbs.

The inducement to join Mosaic and return to the AMA building was their strong tax practice and the freedom to continue investing for clients using the entire range of investment tools available.

I have two grown children who are both local. One works in the political sphere and the other in the travel area. I am single but partnered with a wonderful woman who is a great cook. We enjoy entertaining on a regular basis, both in the city and at our beach house.

In the brief period I have been at Mosaic, I have been impressed with the dedication and talent of their people.

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# 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. ●

## 5 Reasons To Amend Your Estate Plan

It's 2016...do you know where your estate plan is? If you're like most busy people, you may have made a will, perhaps when your children were born, and it's possible you've taken other steps to lay out what will happen after you're gone. But frequently those plans are just gathering dust.

Now's a good time to crack open the vault and take a closer look. Typically, your estate plan will need a minor update, and in some cases a complete overhaul may be in order. Consider these five reasons to revise your plan:

**1. Family changes:** Your personal situation may have shifted because of a

divorce, a separation, or the death of a spouse. You might want to add or subtract beneficiaries to trusts or estates if children or grandchildren have been born since you created your estate plan or if a beneficiary has died. Or your intended heirs may have married or divorced, further complicating matters.

**2. Financial changes:** When you created your estate plan, you probably owned fewer assets or different assets than you have now. You may need to revise your will or trust documents, especially if the value has changed dramatically. Or perhaps you've acquired a business interest or sold

one—another potentially big change to your financial status. A job loss or change also could have an impact on your plan.

**3. Tax law changes:** It seems like the federal estate tax law is amended every other year, so it's important to keep abreast of the latest developments. For instance, your estate plan may not reflect the ever-increasing federal estate tax exemption. The exemption, which was \$650,000 a decade and a half ago, has ballooned to \$5.45 million for someone who dies in 2016. Other tax law provisions, such as the “portability” of exemptions between

# Getting Ready To Retire? 7 Moves NOT To Make

If you're like most soon-to-be retirees, you're looking forward to leaving the rat race and moving into a comfortable lifestyle. But the golden years can lose their luster quickly if you don't consider all of the aspects of retirement. Here are seven things NOT to do when you retire:

1. **DON'T live beyond your means.** If you've been operating on a monthly budget while you've been working, there's no need to abandon this practice in retirement. You might need a budget now even more than you did before. After all, you won't have the same income from wages coming in. Rather, you're likely to be living on a fixed income that you draw from your investments, retirement plans, IRAs, and Social Security benefits. Splurging on things you really can't afford could do more damage than it would have before retirement.

2. **DON'T cut things too closely.** When you're fine-tuning your budget in retirement, give yourself some extra breathing room for unexpected expenses, such as repairs to your home or replacement of appliances. Try to save a little each month to build up a "rainy day" fund that you could use for emergencies. At the same time, just because you're retired doesn't mean you won't want to keep up with the latest technology or fashion trends. The

trick is to create a budget that is generous enough to let you enjoy your retirement without putting your future at financial risk.

3. **DON'T assume that you'll stay in good health.** Even if you're in the pink of health now, there are no guarantees this will continue in retirement. To hedge your bets, make sure you have insurance that's able to provide plenty of protection. That includes health insurance, disability income insurance, and life insurance coverage that will cover your potential needs. Although Medicare can cover most regular health care costs, you'll also need supplemental coverage to avoid large out-of-pocket expenses. Factor the premiums for all of your coverage into your monthly budget.

4. **DON'T become a couch potato.** Once you no longer have to wake up and go to work every morning, it's easy to become sedentary, especially if you're not athletically inclined. But one of the keys to staying healthy is to remain active and vibrant. Find activities that interest you, and pursue your hobbies vigorously. And be sure to socialize with friends and family regularly. Spending your days watching TV and eating potato chips likely will shorten your life span.



5. **DON'T leave investments on cruise-control.** Maybe you've implemented an asset allocation strategy for the remainder of your working years and transitioning into retirement. If the plan was designed properly, it should be suitable for your situation and reflect your personal tolerance for risk. However, your situation and your preferences are likely to evolve, requiring an update. That's why it's important to revisit your portfolio holdings and strategies on a regular basis.

6. **DON'T forget about taxes.** When you're counting on your income to sustain you through retirement, keep in mind how much of your projected earnings will be eroded by taxes. For example, if you sell securities to raise cash, your capital gains will be taxable, although you may benefit from a preferential tax rate of 15% on net long-term gains (20% if you're in the top regular income tax bracket). Most distributions from retirement plans are taxable as ordinary income and even Social Security benefits are subject to taxation. However, qualified distributions from a Roth IRA at least five years old are completely tax-free.

7. **DON'T stop saving for retirement.** Just because you're retiring doesn't mean that you should stop saving for retirement. In fact, with life expectancies continuing to expand, the opposite is true. You can continue to take advantage of tax-favored savings vehicles, including employer-sponsored retirement plans and IRAs if you work at least part-time. For instance, if you quit your main job but work as a freelance consultant, you could set up a Simplified Employee Pension (SEP) or another plan for your self-employed business. Note that plans such as 401(k)s and SEPs allow older workers to add "catch-up contributions" on top of the usual limits.

It takes a long time to build up sufficient savings for retirement but this can be undone quickly through a few costly missteps. **DON'T** make these mistakes. ●

the estates of you and your spouse, also may need to be addressed.

4. **Geographic changes:** If you've pulled up stakes and moved the homestead, maybe downsizing to a place in a warmer climate, this significant change also probably needs to be reflected in your estate plan—especially if you've moved to a state with substantially different tax laws.

5. **Personal changes:** Finally, you may have had a change of heart

about beneficiaries or developed different priorities or preferences. For example, you might decide to cut a daughter-in-law or son-in-law out



of your will or decide to attach conditions to particular gifts or bequests. It's your estate plan, so you can "fix" it however you like.

Of course, you don't have to undertake all of this on your own. Rely on your financial, tax, and legal advisers for guidance. ●

# What To Know About Social Security

**T**he Social Security Administration (SSA) recently announced that there will be no increase in retiree benefits in 2016 because of the low inflation rate. Cost-of-living adjustments (COLAs), which are based on a consumer price index for urban wage-earners, have been standard fare and most retirees expect them. In fact, this is only the third time without a yearly increase in Social Security retirement benefits since COLAs were instituted in 1975. (The other two occurred in 2010 and 2011.)

It may be small consolation, but the Social Security wage base for payroll taxes also won't go up, remaining at \$118,500 in 2016. This means the first \$118,500 of wages you earn in 2016 is subject to a 6.2% tax (or twice that if you're self-employed). There's also a tax for Medicare of 1.45% on all earnings.

Furthermore, the SSA has announced that the limits under the "earnings test" (the amount you can earn from working without forfeiting Social Security benefits) also are unchanged.

Did this "freeze" for 2016 catch you by surprise? If so, you're not alone. People from all walks of life, including those who already have retired, often don't fully understand the rules for Social Security or are unaware of how complex the rules are. Use this quiz to test your personal

knowledge of the subject:

**1) The earliest age you can begin to receive Social Security retiree benefits is:**

- a) age 59½.
- b) age 62.
- c) age 65.
- d) age 70.

**2) The amount you will receive if you opt for early retirement may be reduced by as much as \_\_\_\_\_ for someone born in 1960 or later:**

- a) 5%
- b) 10%
- c) 20%
- d) 30%

**3) To get the maximum amount of Social Security benefits, you need to wait until \_\_\_\_\_ to begin receiving benefits.**

- a) age 59½
- b) age 62
- c) age 65
- d) age 70

**4) Spousal benefits are available to an unmarried ex-spouse if he or she was married to the beneficiary for at least:**

- a) 3 years.
- b) 5 years.
- c) 10 years.

d) 25 years.

**5) Social Security retiree benefits are partially taxable if your benefits exceed \_\_\_\_\_ if you're a single tax filer and \_\_\_\_\_ if you're a joint filer.)**

- a) \$10,000/\$25,000
- b) \$25,000/\$32,000
- c) \$50,000/\$100,000
- d) \$200,000/\$250,000

**6) The age when a Baby Boomer born between 1943 and 1954 is able to receive full retirement benefits is:**

- a) age 62.
- b) age 65.
- c) age 66.
- d) age 70.

**7) For 2016, the maximum amount you're allowed to earn in the year you reach full retirement age—but before the month of your birthday—without forfeiting any benefits is:**

- a) \$15,480.
- b) \$26,480.
- c) \$41,880
- d) \$55,880.

Answers: 1-b; 2-d; 3-d; 4-c; 5-b; 6-c; 7-c

## New "Tax Extenders" Law

*(Continued from page 1)*

### Qualified small business stock:

Investors in qualified small business stock (QSBS) can continue to exclude 100% of the gain from the sale of such stock. This tax exclusion was supposed to be cut to 50% for QSBS acquired after 2014, but now the 100% exclusion is permanent.

### Employee transportation benefits:

The tax law provides tax-free benefits for workers' mass transit passes, van pooling, and parking fees. The maximum monthly benefit for mass transit passes and van pooling had been reduced to \$130 after 2014, but the new law restores a monthly maximum of \$250 for all three fringe benefits (indexed to \$255 for 2016).

### Teacher classroom expenses:

Teachers and other educators can deduct up to \$250 of their out-of-pocket classroom expenses. This deduction will be indexed for inflation in future years.

### Extended Tax Breaks in PATH Act

These provisions, most of which had expired after 2014, now are extended retroactive to January 1, 2015, for a period of at least two years.

- Your business can claim a bonus depreciation deduction of 50% (on the purchase of new equipment) for 2015 through 2017. That drops to 40% in 2018 and 30% in 2019.

- Parents can elect to deduct college tuition and fees, subject to an income-based phaseout, instead of a higher education credit.

- Employers again may claim tax credits for hiring workers who are military veterans or from specified disadvantaged groups.

- Some homeowners will benefit from tax-free mortgage forgiveness on debts of up to \$2 million and a deduction for mortgage insurance premiums.

- A residential energy credit of up to \$500 is available for qualifying energy-saving expenses.

Among other changes, the new law also postpones a tax on high-priced health insurance plans—mandated by the Affordable Care Act (ACA)—from 2018 to 2020; codifies the Taxpayer Bill of Rights; and extends liberal rules for Section 529 college saving plans. Contact us for information about how these provisions may affect your situation. ●