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Financial Planning Strategies

A Financial Planning Update

From the Desk of:
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Mr. Kennedy's investment philosophy is the same that he has practiced over the last decade: securities markets are efficient and advisors primarily add value by coordinating the asset allocation for clients based upon risk tolerance, objectives, and time horizons. The firm has constructed 5 models for clients that vary in risk to meet the goals of each client. The firm primarily uses passive mutual funds in each model and uses select actively managed funds for bond, commodity, and real estate exposure. ITI uses several research resources, including many that were used over the last 20 years, to assist with the recommended asset allocation and the appropriate funds to utilize in each model.

Tax and Retirement Planning for Families with a Stay-At-Home Spouse

In many families, one of the spouses stays home, often to care for children and the household. This may be hard work, but for tax purposes the contributions of the stay-at-home spouse are not recognized in the same way as they are for individuals with earned income. If your wife or husband does not have paid employment, your family may have to do some additional planning to minimize your tax bill, while ensuring that you are saving enough for retirement to cover the needs of both partners.

Even if your husband or wife has not earned a significant amount of income through paid employment, he or she may be entitled to a Social Security spousal benefit. Based on the working spouse's earnings record, the spousal benefit can be claimed after the working partner has filed for benefits and the nonworking partner has reached retirement age. The spousal benefit generally amounts to 50% of the monthly Social Security payment received by the spouse who worked regularly, or less if claimed early.

But Social Security benefits alone are unlikely to cover the needs of most couples in retirement. Thus, your family's retirement strategy should include a plan for both partners, even if you are the sole earner. If you have not done so already, consider making the maximum contribution to your employer-sponsored 401(k) plan. While your nonworking partner is not permitted to contribute to your workplace retirement plan, the annual contribution limit in 2017 is $18,000, or $24,000 for individuals age 50 and over. The funds in the account will be held in your name, but can be inherited by your spouse, and are typically divided between the spouses in the event of a divorce.

Another option for tax-advantaged retirement savings is a spousal IRA, which is simply a regular IRA designed specifically for spouses who are not employed or are working too little to contribute to a qualified retirement account. While it is a fundamental rule that individuals need to have earned income, or wages, in order to contribute to an IRA, a nonworking spouse is permitted to open an account to which the working spouse may contribute. Provided you file a joint return, you are permitted to contribute up to $5,500 (or $6,500 for those age 50 and older) in 2017 to an account in your partner's name, while also contributing the same amount in your own IRA. Thus, your household may be eligible to contribute up to a total of $11,000 or $13,000 to two separate IRA accounts.

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Maintaining a Healthy Credit Report

Your credit report is an accumulation of information about your bills and loans, your repayment history, your available credit, and your outstanding debts. These reports are typically used by lenders when deciding whether or not to accept a loan or credit application. A healthy credit report can help you secure the funding you need to purchase a new home or car, pay for a child's education, or start your own business. The following guidelines can help you maintain a healthy credit report:

Establish and maintain a good credit history. Your ability to pay off debt over time can help paint a more complete picture for a lender inquiring about your financial habits. Therefore, you may want to consider maintaining your oldest credit card. Credit companies often suggest that you also maintain a few accounts to demonstrate your commitment to managing multiple debt sources.

Close extra accounts. After receiving your new customer gifts offered by credit card companies, you may forget about these accounts. However, having numerous open accounts on a credit report may be a red flag to a lender, indicating that you could find yourself in financial danger due to the large amount of readily available credit. Consider closing any accounts that you do not use. This may also minimize your risk of identity theft. Remember, cutting up the credit card itself or simply not using it does not mean the account

is closed. To officially close an account, you must call or write to the company with your request.

Make the minimum payments. Delinquencies on payments remain on your credit report for seven years, even if you have since settled the account balance and paid the debt. Therefore, always try to make at least the minimum payments by the due date requested by the creditor or lender.

If you are in a tight financial situation and decide to ignore an account for a period of time, be aware that accounts sent to collection agencies or charged off by creditors (meaning the debt is written off as a loss) also remain on your credit report for seven years. So, if you are unable to make the minimum payments, you may want to contact your creditor, rather than ignore the problem.

Pay down and keep your debt in line with income. Determine your debt-to-income ratio by adding up the balances of all your loans and credit cards, and comparing that with the amount of income you receive annually. If your total debt exceeds your income, lenders may be hesitant to grant you more credit. If you have a large amount of debt, develop a strategy to pay it off gradually within your budget. In the meantime, curb excess spending and avoid further debt.

Control your number of credit inquiries. A large number of inquiries on your report may signal to a lender that you are in need of a lot of credit or are preparing to take on a large debt. Neither situation bodes well for your ability to take on additional debt. Keep in mind that each time you apply for a new credit card, even if it is only to receive a free gift, an inquiry will appear on your credit report and remain on your report for two years.

Opt-out of inclusion on marketing lists. While soft inquiries, those made by marketers and others wishing to sell you something,

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Tips for Sealing the Deal When Lending Funds to Your Child

Have you ever considered lending money to help your child with a down payment on a new home, to bankroll a business venture, or for some other major expense? Many adult children seek financial assistance from their parents if they encounter difficulty securing a bank loan because they lack a credit history or collateral. Often, parents want to help their children succeed in life and are willing to give them a financial boost. In general, parent-to-child business loans tend to go smoothly. However, if a loan is not paid back as agreed upon by both parties, it could affect family relations. So, here are four points to consider before lending funds to your child:

1. **Document the loan.** If you expect the money to be repaid, consider treating the loan as seriously as a bank would by requiring the proper documentation. You must be able to demonstrate to the Internal Revenue Service (IRS) that you made a *bona fide* loan in order to deduct it as a bad debt. For tax purposes, request the following:
   - A note and *written* loan agreement
   - Collateral or other form of security
   - A repayment schedule and repayment records
   - A plan indicating that the loan will be repaid as scheduled
   - Proof that a business was solvent when the loan was made, if applicable

   Proper documentation may also help you avoid other complications. For instance, if your child were to divorce, a written loan agreement identifying who is responsible for repayment, and on what terms, could prevent a former spouse from refusing responsibility for the debt or claiming that the money was a gift. It could also keep an ex-spouse from obtaining—through the division of marital assets a controlling interest in a company you funded.

2. **Know the rules.** The IRS allows you to deduct bad debts only *after* you have tried to collect them by legal means, if necessary. So if you want to write off the loan, you must be prepared to take legal action to collect it.

   If legal action is appropriate in your situation and you are still unable to collect the loan, you may write it off as a **short-term capital loss** by subtracting the outstanding loan balance from your total short- and long-term capital gain for the year. If the loss exceeds your total capital gain, you may deduct it in $3,000 increments each year until it is entirely written off.

3. **Treat the bad debt as a gift.** Instead of a lawsuit, you may have the option of treating the bad debt as a gift. In 2017, the IRS allows each taxpayer to give up to $14,000 per person per year free of gift and estate taxes. Thus, both parents together could offset an uncollectable debt with a combined gift of up to $28,000 per year with no tax consequences. (Any amount exceeding this limit may be subject to gift and estate taxes.)

4. **Use common sense.** Lending money to a child may have certain tax consequences for you, so it is important to consider the odds of a successful follow-through on your child's part. Think twice before lending money for a risky venture unless you are willing to part with it as a gift with possible tax consequences, if needed.

Helping a child to succeed in life can be an exciting and rewarding experience for a parent. But, be aware of potential tax traps and legal pitfalls *before* opening your checkbook, and remember to seek professional advice beforehand. $

Tax and Retirement Planning for Families with a Stay-At-Home Spouse

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A spousal IRA can be a traditional IRA or a Roth IRA. The traditional IRA is tax-deferred, which means that you won't pay income taxes on current contributions, but you will owe taxes on distributions in retirement. By contrast, Roth IRA contributions are made with after-tax dollars, but the funds in the account grow on a tax-deferred basis and can be withdrawn tax free in retirement.* Thus, a Roth IRA may be an attractive option if you expect to be paying higher tax rates in retirement or wish to leave an IRA to beneficiaries. However, in 2017 the eligibility for contributing to a Roth account starts to phase out for married couples with a modified adjusted gross income (AGI) of $186,000, and is capped at $196,000.

It is also important to keep in mind that the deduction for taxpayers making contributions to a traditional IRA is phased out for married couples filing jointly when the spouse who makes the IRA contributions is covered by a workplace retirement plan. While the modified AGI phase-out range is $99,000 to $119,000 in 2017 for the spouse who is employed, it is raised to $186,000 to $196,000 for an IRA contributor who is not covered by a workplace retirement plan and is married to an individual who is covered.

Married couples in which one partner owns a business or is self-employed have additional options for saving for a stay-at-home spouse's retirement. For example, if you own a business, your partner may be able to provide services to your company, such as bookkeeping or answering calls, while still remaining primarily at home. If you pay your partner as an employee, he or she can qualify to participate in the company's retirement plan. This approach can lower your family's current income tax bill, while helping to secure your financial future as a couple. $

**Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five tax years before tax-free withdrawals are permitted.*

Maintaining a Healthy Credit Report

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do not usually appear on the version of your credit report shown to lenders, these inquiries indicate that your personal information may be available and used by the companies listed, increasing your exposure to identity theft. Many marketers receive lists of potential customers directly from credit bureaus. You can "opt out" of being included on lists sold to these companies by either writing to each of the three credit bureaus or calling 1-888-5-OPT-OUT. Doing so will remove your name from marketing lists for two years.

According to the **Fair Credit Reporting Act (FCRA)**, you can request a free copy of your credit report from each of the three major credit bureaus (Equifax, Experian, and TransUnion) once a year. For your convenience, you can access all three agencies through a single website at www.annualcreditreport.com. To maintain healthy credit, monitor your credit report regularly and take actions toward building and maintaining good credit. $