

Year-End Tax Tips

Just what you need, right? One more job to do between now and the end of the year. But taking a little time to meet with your HCM Wealth Advisor to review strategic tax and portfolio decisions before December 31st, could leave a little more money under the tree. Using tools that HCM has developed makes reviewing your financial plan easier than you may think.

Year End Tax Planning

Using the **HCM Tax Bracket Analyzer™**, we will partner with your tax preparer to help make sure that the timing of your income and deductions minimizes your income tax bill. Remember, when New Years arrives, for all practical purposes, the ability to do tax planning for 2016 is gone. Some things to think about include:

- Year-end gifting
- Bunching of deductions
- Timing of state and local tax payments
- Alternative minimum tax
- Kiddie Tax
- Maximizing deductible retirement plan deferrals
- Roth IRA conversions and re-characterizations
- Charitable gifting
- Deferring the recognition of income if possible
- Qualified Charitable Distributions (QCDs) to satisfy Required Minimum Distribution (RMD) requirements
- Deductible and non-deductible IRA contributions
- Maximizing your pre-tax contributions to your Health Savings Account or Flexible Spending Account

Your ordinary income tax rate is probably higher than your long-term capital gains rate, which applies to the sale of assets held for more than a year. For example, for 2016, the top marginal tax rate is 39.6%, which applies to any taxable income over \$415,050 (\$466,950 for married individuals filing jointly). By contrast, the long-term capital gains rate owed by taxpayers in the 39.6% tax bracket is 20%. In addition, higher income taxpayers,

generally those with \$200,000 for single tax payers and \$250,000 for joint filers may also pay an additional 3.8% depending on their net investment income. These rules also generally apply to qualified dividends. A qualified dividend is a type of dividend to which capital gains tax rates are applied. These tax rates are usually lower than regular income tax rates.

For most investors, those in tax brackets between 25% and 35%, long-term capital gains and qualified dividends are taxed at 15%. Taxpayers in the lowest tax brackets, 15% or less, are taxed at 0% on any long-term capital gains and qualified dividends.

With so much variability in how portfolio income is taxed, it makes sense to take a look at this area as part of your year-end tax planning. **HCM's Tax Bracket Analyzer™** tool helps us manage the recognition of your controllable income to improve your tax efficiency.

Now is the time to consider the tax consequences of any capital gains or losses you've experienced this year. **There are often steps you can take before the end of the year to minimize the tax impact of portfolio profits.**

Continued on page 2



Know when to fold ‘em

If you have realized capital gains from selling securities at a profit (congratulations!) and you have no tax losses carried forward from previous years, you can sell positions that are currently trading below their cost to avoid being taxed on some or all of your gains. Any losses over and above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 for a married person filing separately) or carried forward to reduce your taxes in future years. Selling positions for the tax benefit they will provide is a common financial practice known as “tax-loss harvesting.”

Using the **HCM Tax Loss Harvesting System™** we can help you review your investment portfolio to determine whether or not there is an opportunity to reduce your tax liability by realizing losses on specific investments.

Know where to hold ‘em

Think about which investments make sense to hold in a tax-advantaged account and which might be better for taxable accounts in light of your overall asset allocation goals. **HCM’s Tax Location Matrix™** tool helps you properly locate assets to ensure they are invested in a manner that generates the highest after-tax returns. Remember, it’s not what you make that counts, it is how much you keep.

★ ★ ★ You May Be Wondering ★ ★ ★

With the election just weeks away, we thought we’d share a little historical perspective on elections and the stock market. While every election is unique, 2016 could arguably shape up as a true outlier. That’s due partly to the somewhat unconventional campaign being run by Donald Trump, and the fact that Trump, unlike any major party nominee since Dwight Eisenhower in 1952, has never held elective office. Also, Hillary Clinton is the first woman to be a major party nominee.

Before we get into the details, there is an important disclaimer. From a statistical standpoint, the sample size is very limited. This is the 30th presidential election since 1900, when daily data on the Dow Jones Industrial was available. When dividing it further into categories such as political party or incumbent winning or losing, there are even fewer cases to draw data from.

Does the Economy Forecast Election Results?

There’s an old expression, “So goes the economy, so goes the election.” Historically, the strength of the economy has been a major indicator as to whether the incumbent parties have won or lost. Since 1900, the economy has been in a recession five times during an election year. Four out of the five times, the incumbent party lost. The lone exception was 1948 when the economy entered a recession during the month of the election. Harry Truman, the Democratic candidate, won

in one of the biggest upset since 1900. Since 1960, in every presidential election in which the U.S. economy was in or near a recession, the incumbent party has lost.

When the economy has not been in a recession, the incumbent party retained control 71% of the time. There were seven elections where the incumbent party lost when the economy was not in a recession.

When U.S. Government Has A:	%Gain/ Annum	% of Time
Democratic President, Republican Congress	8.81%	9.99%
Democratic President, Split Congress	10.37%	3.47%
Democratic President, Democratic Congress	7.17%	34.59%
Republican President, Republican Congress	7.03%	22.56%
Republican President, Split Congress	-4.25%	10.43%
Republican President, Democratic Congress	2.44%	19.09%

Right now, we are not in a recession but we are in the midst of a very unconventional election.

Which Political Party is best for the Stock Market?

From a performance point of view, the Dow Jones Industrial performs best when the Democrats hold

the Presidency. When you view the stock market from which political party controls Congress, both the Senate and the House, the Dow Jones Industrial performs best when the Republicans are in control.

So, for the stock market, what is the best combination of President and Congress? (see chart above; Ned Davis Research, 7/29/2016)

Perhaps the most dominant historical trend which can be noted from the information above is the *historical trend of good stock market performance when a Democrat has been president. However, as with all investing, past performance is not necessarily a predictor of future results.*

Before Year-End, Review a Few Things

Fall is a good time to pause and review your financial and retirement planning strategy with your HCM Advisor. A lot can happen in a year. Life changes may require an adjustment to your retirement plan. You may also need to revise the beneficiaries on your retirement accounts and life insurance policies and update your will and power of attorney documents. Examples of life events that can have a financial impact include:

- Buying or selling a home
- Getting married or divorced
- Saving for a child's college education
- Coming into an inheritance
- Promotion or changing jobs
- Starting, buying or selling a business

Life changes can be stressful, and it's very common for these chores to be overlooked. But failure to update financial plans and legal documents can lead to unintended consequences later on, either when you die or if you become legally incapacitated and need someone else to make certain decisions on your behalf.

Other items to consider as year-end approaches:



IRAs: Max out your 2016 IRA contributions.

While you have until April 15th 2017, do it now and let your money start working for you. For 2016, the annual IRA contribution limit is \$5,500, or \$6,500 if you'll be age 50 or older as of year-end.

2016 RMD Procedures

The Client Services team at HCM is busy assisting Clients (age 70.5 and older) with their Required Minimum Distributions (RMDs), which must be processed before December 31, 2016.

If you are currently taking monthly or quarterly distributions, your preferences have already been recorded and your RMD is already set up for 2016.

If you are accustomed to taking your annual RMD in a single distribution and you have not yet taken the distribution for 2016 or if your regular distributions will not meet your obligations, we will be contacting to schedule your 2016 RMD.

If you have questions about your RMD, please call Kathy, Diane, or Laura at 513-598-5120

2016 Charitable Donations

Charitable donations can be one of the most powerful tax-savings tools. If you plan on making year-end charitable contributions of securities in your Schwab account, please note for Gifting of Mutual Funds & Stock, the Letter of Authorization must be received in our office by Monday, November 28, 2016.

Qualified Charitable Distribution (QCD)

At the end of 2015, Congress passed a tax bill that permanently extends the Qualified Charitable Distribution (QCD) provision, which lets people over age 70½ transfer up to \$100,000 from their IRA to charity and have it count as their required minimum distribution without increasing their adjusted gross income.

Have Questions?

These are just a handful of financial issues to consider at year end. Your HCM Wealth Advisor can run through a more comprehensive checklist based on your personal circumstances. Call to schedule a meeting as soon as possible, before the hustle and bustle of the holiday season starts.

A Primer on

MEDICARE

At our meetings with our clients, we get a lot of questions about Medicare. With Medicare Open Enrollment beginning October 15th, it's a good time to review some basic Medicare facts. This topic has a number of complexities, so keep in mind, this is just an overview. If you have additional questions about Medicare, be sure to contact your HCM Wealth Advisor.

What is Medicare?

Medicare is a federal health insurance program that provides health insurance to individuals who meet the below conditions:

- People age 65 and older regardless of medical condition
- People under age 65 with disabilities
 - People with End-Stage Renal Disease
 - Certain people with ALS (Lou Gehrig's Disease)

How do you sign up for Medicare?

You are automatically enrolled in Original Medicare (more information below) when you turn 65 if you're already receiving Social Security benefits, or when you apply for Social Security benefits at age 65. In either case, the SSA will notify you that you're being enrolled.

You enroll in Medicare during one of the enrollment periods.

TIP: If you are turning 65 within the next 7 months, contact Social Security to make sure you enroll at the proper time to avoid costly penalties.

Enrollment Periods for Eligible Individuals

- **Initial Enrollment:** When you are first eligible for Medicare, you have a seven-month period to sign up. This seven-month period begins three months before your 65th birthday, includes the month you turn 65, and ends three months after you turn 65.
- **General Enrollment:** If you miss your Initial Enrollment Period, you can sign up between January 1 through March 31st each year. Your coverage will begin July 1st. You may have to pay a higher premium for late enrollment.

- **Open Enrollment:**
Annual Election Period: The Annual Election Period, which is when you can change your Medicare health or prescription drug coverage, is October 15th through December 7th. Your coverage will begin January 1 of the following year.

- **Special Enrollment:** If you or your spouse is currently employed and you are covered by a health insurance plan through your employer, you will have a Special Enrollment Period when your coverage ends.

TIP: If you are currently working and turning 65, talk with your employer and social security office. You may be able to delay enrollment without penalties.

What if I am still working and have health insurance. Do I have to enroll in Medicare?

You should talk with your employer to see if they require you to sign up. If you are not required to sign up by your employer, you can delay signing up without penalty as long as you are covered by a group health plan based on current employment. In either case, you will sign up under the Special Enrollment Period.

You also have an 8-month Special Enrollment Period to sign up that starts the month after the employment ends or the group health plan insurance ends, whichever happens first. Usually, you don't pay a late enrollment penalty if you sign up during a Special Enrollment Period.

Making Sense of Medicare Terms

Most people get their Medicare coverage one of two ways:

- Original Medicare (Part A and Part B + Part D)
- Medicare Advantage (Part C - Includes hospital, medical and most include drug plans)

Your costs will vary depending on your plan, coverage, services used, and possibly your income.

Part A is Hospital Coverage, and there is no premium for most people. This covers inpatient hospital care, and, very minimal coverage for skilled nursing facility care, home health services and hospice.

Part B is Medical Coverage, and there is a premium as well as coinsurance and deductibles. This covers medically necessary services, outpatient hospital care, lab tests, physical therapy, ambulance service and preventive benefits. Medicare Part B also covers 100 percent of the cost of many preventative services. You may go to any provider that accepts Medicare. Medical equipment is covered here, but must be purchased through a contracted provider.

Part C, also known as Medicare Advantage Plans is an alternative to Original Medicare. They are private health-care plans that contract with Medicare to provide Part A and Part B benefits. Actually, they must cover everything Original Medicare covers except for hospice care. Most plans include drug coverage and some may offer additional benefits not covered by Original Medicare such as dental and vision.

You can choose to enroll in either Original Medicare or a Medicare Advantage plan but to be eligible for an Advantage Plan you must be enrolled in Part A & Part B. Shop your Medicare Advantage Plan annually during Open Enrollment as plans may change from year to year.

Part D is Prescription Drug Coverage, and there is a premium as well as copays and deductibles. Part D plans can only be offered by companies approved by Medicare. Plans vary in cost and specific drugs covered. It is important to shop your Part D plan annually during Open Enrollment (www.Medicare.gov) as plans may change from year to year.

TIP: When you sign up for Medicare, you will be asked if you want to enroll in Medical Insurance (Part B). If you do not choose to enroll in Medicare Part B and then decide to do so later, your coverage may be delayed and cost more.

Medicare Supplemental Plans (also known as Medigap) is insurance that you buy from a private insurance company that helps cover some of the costs that Original Medicare doesn't cover, such as copayments, coinsurance and deductibles. If you have an Advantage Plan, it is illegal for someone to sell you a Medigap Plan, so you should never have both of these. Individuals enrolled in Medicare Parts A and B are eligible.

Medicare Supplement Open Enrollment Period:

This is the six-month period that starts on the first day of the month that you are 65 or older and enrolled in Medicare Part B. During this time, you have the guaranteed right to buy any Medicare supplement plan that's sold in your state, despite any pre-existing health conditions.

For more information on Medicare, visit Medicare.gov or the Ohio Senior Health Insurance Information Program website, www.insurance.ohio.gov.

This article was co-authored with Lisa Harmeier Dalga. Lisa is owner of **simplified Money Matters**, *Putting Your Everyday Financial Affairs in Order*, and volunteers with the Ohio Senior Health Insurance Information Program – OSHIIP.

TIP: Even if you are not currently on prescription drugs, you may want to join a plan if you don't have creditable coverage. This will help avoid late enrollment penalties.

Festival of Lights Tickets

The holidays are a time for family, friends and creating memories. Keeping with our holiday tradition, we are happy to treat HCM clients and their families to Festival of Lights tickets for the 2016 holiday season.

Your 2016 Festival of Lights invitations will be delivered by email in early November. All of the information for reserving your tickets will be included in the email. If you do not have an email address, we will send you printed information in early November. Questions? Contact Sally Bankemper at sally@hengeholdcapital.com or call 513-598-5120.



Hold the Date January 24th 2017 — HCM is Hosting an
Economic Outlook Event



Featuring Jeff Kleintop,
International Speaker and Chief Global Investment Strategist
January 24, 2017
7:30 a.m. – 9:30 a.m. with Breakfast
Hyatt – Downtown Cincinnati

We think the timing is perfect! By January 24th, the new President and Congress will be in place and you will be wondering about the economic impact of these changes. We have arranged to bring to Cincinnati Jeff Kleintop, International Speaker and Chief Global Investment Strategist, to discuss the economy, markets, trends, and their financial implications. This event is open to HCM clients, guests and the local Cincinnati business community. Look for more information on the events page of our website and on our Facebook and Twitter pages.

Welcome to our new team members



Jake with Millie
(born 08/26)



Laura with Avery
(born 12/3/15)



Jim and Jax
(Jax is 6 weeks old)



Greg with Henry
(born 3/31)



Jayme with Crosby
(born 7/26)

About Us...

When you decide to work with an Advisor to help plan and prepare for your financial future, it is important to work with professionals who are willing to take the time necessary to understand your situation and help you create solutions uniquely suited to meeting your goals and objectives. Your HCM Team is always available to answer your questions. At HCM, we provide goals-based wealth planning and investment management services using the top technology, research, and analytical skills of our investment professionals. As a fee-only Registered Investment Advisor, our loyalties are always aligned with our clients' best interests 513-598-5120 or visit our website at hengeholdcapital.com.

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