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Pro Tax is a Registered Investment Advisory firm with the Arizona Securities Division. Please contact Pro Tax Financial Services at (480) 464-1040 if you would like an updated copy of the Form ADV part II.

Financial Briefs

SUMMER 2016

Tax Planning and Retirement

Taxes can have a big impact on your retirement. When many retirees think about how much money they might need to sustain their lifestyle in retirement, they often neglect to think about taxes. While it's true that your tax burden will likely be lower in retirement than it was when you were working, the government doesn't let you off the hook completely. That's why it's wise to start your retirement tax planning years — if not decades — in advance. By being smart about how you invest and from where you'll draw your income in retirement, you'll be better prepared for a secure future. Here are some tips to get you started.

Don't Forget about Social Security

Social Security is a significant source of income for many retirees. But don't expect this retirement cornerstone to come to you tax free. Some people are surprised to learn that Social Security benefits are taxable. What portion of your Social Security benefit is subject to tax depends on your overall income for the year. People who receive all of their retirement income from Social Security don't usually need to pay taxes on their benefits. But if you have other sources of income, like withdrawals from an IRA or 401(k), you may have to pay.

To find out if your Social Security is taxable, you have to figure out your combined income. Simply add up your adjusted gross income, nontaxable interest received, and half of your yearly Social Security benefit. If you are married and that number falls between $32,000 and $44,000 (between $25,000 and $34,000 for single individuals), you may have to pay tax on up to half of your Social Security. If it's more than $44,000 ($34,000 if single), up to 85% of your benefit may be taxable.

Consider the Tax Implications of Relocating

Many people plan to pull up stakes in retirement. But before you sell the house and pack the moving van, make sure you understand how living in another state (or even another country) may affect your taxes. Some U.S. states are friendlier

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Tax Planning Strategies for Families

Budgeting is a big deal for most families, no matter what their income. That's why most parents are on a constant hunt for ways to save. Fortunately, the IRS is pretty friendly to families, offering parents a number of ways to trim their tax bill. Below, we've highlighted some of the biggest credits and deductions families can take advantage of to cut their taxes.

1. Child Tax Credit

Most parents are familiar with the child tax credit, which allows you to shrink your tax bill by up to $1,000 for each child under the age of 17, provided they meet certain criteria. But some may not realize that they can claim this credit for children who aren't their biological son or daughter. Foster children, adopted children, grandchildren, brothers, sisters, nieces, nephews, and other relatives may also qualify, provided you claim them as a dependent, they are a U.S. citizen, they lived with you for at least half the year, and they didn't provide more than half of their own support.

2. Child and Dependent Care Credit

If you have to pay for child care while you work, you may be able to get a credit for those expenses. The total credit can be worth between 20% and 35% of the total amount you paid for care. You can claim a credit based on up to $6,000 of child care expenses, depending on the number of children you have. You may even be able to deduct the expense of sending your little ones to summer day camp (overnight

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Retirement

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to retirees than others. For example, Alaska has no state income tax and no sales tax, though the climate may not be to everyone's liking. Nevada is a warm-weather state that also doesn't have an income tax, making it a popular destination for retirees. Some states offer special perks just for retirees. Georgia, for example, doesn't tax Social Security income and also exempts $65,000 of retirement income for people over the age of 65. Other states have much higher tax burdens.

Consider Tax-Diversified Investments

When saving money for retirement, many people focus on putting as much as they possibly can into tax-deferred retirement accounts like 401(k) plans. That's not a bad strategy, but it probably shouldn't be your only approach to saving for retirement. That's because you will have to pay taxes on your 401(k) plan withdrawals in retirement. If all your savings are in a 401(k) plan or similar account, you won't have any choice about paying that tax. But if you can save money in other accounts like a Roth IRA, you will also have an option for tax-free income in retirement. It may even be smart to have some of your investments in regular taxable accounts, since income on these investments is taxed at a lower capital gains rate.

If you don't already have money in a Roth IRA, you may want to consider a Roth IRA rollover. This involves moving money from your tax-deferred retirement account to a tax-free account (though you'll have to pay any taxes owed when the rollover happens). That's not the right move for everyone, however, so talk to your financial advisor about whether a Roth rollover would be appropriate for your situation.

Have a Plan for RMDs

If you have retirement savings in a 401(k), Roth 401(k), IRA, or similar accounts, you are required to start making withdrawals when you turn age 70½. The amount you have to take out every year is based on your total savings and your life expectancy. You need to make withdrawals whether or not you actually need the money; and if your required minimum distributions (RMDs) are particularly high, they may even bump you into a higher tax bracket. The best way to manage RMDs depends on your unique situation. Some people may choose to start making withdrawals from the 401(k) plan earlier than age 70½ if those withdrawals will be taxed at a lower rate. If they don't yet need the money, they can invest it elsewhere. In other cases, it may make sense to do a rollover to a Roth IRA, since it is the one type of retirement account that isn't subject to RMDs.

Please call if you'd like to discuss this in more detail.

Using Portfolio Losses

To help minimize your capital gains tax bill, you should actively harvest any losses in your portfolio. Some strategies to consider include:

Recognize losses to offset at least $3,000 of ordinary income. Capital losses offset capital gains, and an excess of $3,000 of capital losses can be offset against ordinary income. If you are holding stocks with losses in your portfolio, you should probably take advantage of this tax rule.

If you still want to own the stock with the loss, you can sell the stock, recognize the tax loss, and then repurchase the stock. You just need to make sure to avoid the wash sale rule. This rule states that you must repurchase the shares at least 31 days before or after you sell your original shares to recognize the loss for tax purposes. You can also purchase a similar stock, perhaps of a competitor, to replace the sold stock. Since it isn't the same stock, you don't have to wait 31 days to purchase it.

Consider recognizing all, or a substantial portion, of any losses in your portfolio. Since you can only offset an excess of $3,000 of capital losses against ordinary income, you might wonder why you should incur excess losses that can't be used currently, even though you can carry them forward to future years. There are a couple of advantages to this strategy.

First, it gives you an opportunity to totally reevaluate your portfolio. If you are convinced all your investments are good ones, you can sell them, recognize the tax loss, and then repurchase the stocks, being sure to avoid the wash sale rule. But it's probably more likely that you own some investments you wish you didn't or you think won't recover as quickly as other investments.

Second, it gives you more flexibility when recognizing gains in the future. Until you use all your capital losses, you can recognize capital gains without worrying about paying taxes.

Use stock losses to offset other capital gains. You don't have to match stock losses with stock gains. If you have capital gains from the sale of another type of asset, such as a business or real estate, stock losses can be used to offset those gains.

Don't gift stocks with losses. If you are planning a large charitable contribution, it makes sense to donate appreciated stock held for over a year. You deduct the fair market value as a charitable contribution, subject to limitations based on a percentage of your adjusted gross income, and avoid paying capital gains taxes on the gain. If the stock has a loss, however, you should first sell it and then send the cash to the charity. That way, you get the charitable deduction and recognize a tax loss on the sale.

Please call if you'd like to discuss these strategies in more detail.

Families

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camps don't count, however).

Before you rush to claim this credit, make sure you compare its value against what you may get by using money from a flexible spending account (FSA) offered through your employer to pay for child care. Some people may be better off using the FSA. People with high child care costs may be able to take advantage of both options, provided they don't double dip. For example, if you contribute the maximum amount to an FSA and have child care expenses beyond that, you may be able to claim the credit for those additional costs.

3. Save for College

Contributions you make to a 529 plan or educational savings account for your children aren't deductible from your federal taxes (state taxes may be a different story). However, these accounts are still valuable tax-planning tools. That's because the money in these accounts grows tax free; and if you withdraw it to pay for qualified educational expenses, you'll pay no tax on the earnings. That may not seem like a big deal now, but you'll be thankful for the tax break once those college bills come due.

4. Fix Your Withholding

Welcoming a new child to your family means some changes in your tax situation. You should be able to get a tax break for your child, but only if he or she has a Social Security number. Because you'll be paying less in tax as a result of having a dependent, you may want to adjust the amount withheld from your paycheck by claiming another allowance. That will mean more money in your pocket every month, which you'll probably need with a new baby in the house.

5. Get an Adoption Credit

Adoptive parents are eligible for one of the biggest tax credits the IRS offers. If you adopted a child last year, you can get a credit for up to $13,400. How much you're actually able to claim depends on your income and factors such as whether you adopted a special-needs child. In some cases, you may be able to get the credit even if you didn't pay any adoption expenses directly. Qualifying expenses include attorney fees, travel costs, and adoption fees. One catch: You can't get this credit for officially adopting your stepchildren.

6. Have Your Child Work for You

If you or your spouse own a small business where you are the sole partners, you could cut your tax bill by hiring your children. Provided you can give them a real job (like answering the phones, putting together mailings, or even managing your company's social media accounts), you can pay them a wage that's deductible from your business income. And because your child will likely be in the lowest tax brackets, that money will be tax free to him/her as well.

7. Help Your Child Save for Retirement

Let's be honest — at this point, you're probably more worried about your own golden years than your children's retirement. But putting some money away in an IRA now for your child can come with some big tax benefits for him/her down the line. If your child has earned income (perhaps from that job you gave him/her), he/she can contribute to an IRA.

Just like adults, children can set aside up to $5,500 a year, provided they earn that much money. For most youngsters, it makes sense to put the money in a Roth IRA. Most children are in a low tax bracket, so they won't benefit from a traditional deductible IRA, but they will appreciate the tax-free income that a Roth provides decades from now when they do retire. Plus, Roth IRAs can also be a source of tax-free cash they could tap to buy their first home or even cover educational expenses.

If you're interested in implementing any of these strategies, please call.

Getting Organized for Taxes

Plan Ahead. Strategic tax planning should really commence at the beginning of each year — not at the beginning of tax season. Now is the best time to save for goals that can benefit you during tax season and beyond, such as extra mortgage payments, college savings plans, charitable giving, or a boost in contributions to your qualified retirement plan.

Make a List. To serve as an ongoing reminder, make a list of applicable tax deductions and consider keeping it in plain sight on your refrigerator or office bulletin board. Continued awareness of these deductions will not only motivate you but also keep you on track for the entire year and help minimize what you owe come tax time.

Stay Organized. Two of the biggest stressors of tax planning are remembering what you spent throughout the year that may qualify as a deduction and locating the receipt. Keep track of deductible expenses, donations, and cash gifts in a designated tax deduction basket, file folder, or online storage system, where you can place everything that may be eligible as a deduction.

Do a Midyear Financial Review. Change is inevitable, though unfortunately, it's not always easy to anticipate while you're trying to plan ahead for tax season. For this reason, incorporate tax planning as part of your midyear financial review; accounting for income changes, unanticipated quarterly bonuses, investment gains and losses, or changes in family status can substantially modify your owed taxes or refund.

Don't Go It Alone. Go to a professional who knows all the complex technicalities of tax planning; they can spot oversights, helping to maximize your refund and reduce your risk of audit.

Business Data

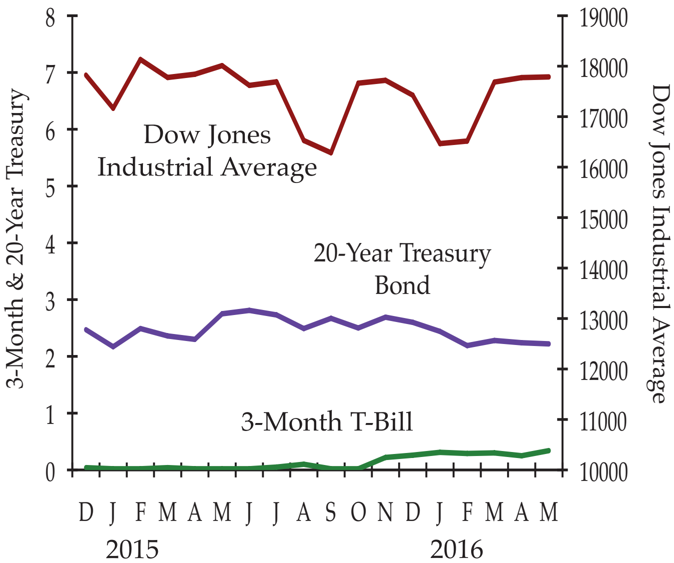
Indicator	Month-end Mar-16	Apr-16	May-16	Dec-15	May-15
Prime rate	3.50	3.50	3.50	3.50	3.25
3-month T-bill yield	0.30	0.25	0.34	0.26	0.02
10-year T-note yield	1.91	1.84	1.82	2.24	2.23
20-year T-bond yield	2.28	2.24	2.22	2.60	2.75
Dow Jones Corp.	3.04	2.80	2.89	3.43	2.98
GDP (adj. annual rate)#	+2.00	+1.40	+0.80	+1.40	+0.60

Indicator	Month-end Mar-16	Apr-16	May-16	% Change YTD	12-Mon.
Dow Jones Industrials	17685.09	17773.64	17787.20	2.1%	-1.2%
Standard & Poor's 500	2059.74	2065.30	2096.96	2.6%	-0.5%
Nasdaq Composite	4869.85	4775.36	4948.05	-1.2%	-2.4%
Gold	1237.00	1285.65	1212.10	14.1%	1.7%
Unemployment rate@	4.90	5.00	5.00	0.0%	-7.4%
Consumer price index@	237.10	238.10	239.30	0.8%	1.1%
Index of leading ind.@	123.10	123.10	123.90	0.0%	1.3%

\# — 3rd, 4th, 1st quarter @ — Feb, Mar, Apr Sources: *Barron's*, *Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

December 2014 to May 2016



News and Announcements

Should You Defer Income Taxes?

Should you pay income taxes now so you can withdraw tax-free funds after retirement? Or are you better off delaying income taxes until after retirement? This is the basic decision when choosing between a traditional deductible individual retirement account (IRA) and a Roth IRA, or between a 401(k) plan and a Roth 401(k) plan. With the Roth options, you are paying taxes now so you can take qualified distributions income-tax free. With the traditional IRA and 401(k) plan, you are delaying taxes until distributions are taken.

The standard advice is to consider whether your tax bracket will be higher or lower in retirement. If you are likely to be in a higher tax bracket, you'll usually benefit from the Roth options. If you're likely to be in a lower tax bracket, you may benefit more from the traditional IRA and 401(k) plan.

Most people naturally assume that their tax rate will be lower in retirement, since their income will typically be lower. That assumes that income-tax rates will stay constant over that time period, even though tax rates are at historically low levels. No one knows how those rates will be adjusted by Congress over the years.

Thus, it may be prudent to use tax diversification for your portfolio. Tax diversification attempts to protect your portfolio against tax-rate fluctuations. With tax diversification, you invest in a number of investment vehicles with different tax ramifications. For instance, you might invest in a Roth IRA, from which qualified distributions can be taken with no tax consequences; a 401(k) plan, wherein you save taxes now and pay ordinary income taxes on qualified distributions; and taxable accounts, in which a maximum capital gains tax of 20% must be paid on sales of appreciated investments. Thus, during retirement, you can monitor your tax situation and withdraw money from the assets that make the most sense in any particular year.

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