Alton Securities
& Asset Advisors

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Planning Ahead

The last quarter of 2016 is upon us and you might be asking yourself some of these questions:

- Have I made my annual IRA contribution?
- Am I required to take an annual RMD?
- Is it too early to think about my taxes?

Inside these pages you will find some helpful information on these topics as well as some others.

If you have any questions or would like more information, please do not hesitate to call or email us.

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IRA and Retirement Plan Limits for 2016

IRA contribution limits

The maximum amount you can contribute to a traditional IRA or Roth IRA in 2016 is $5,500 (or 100% of your earned income, if less), unchanged from 2015. The maximum catch-up contribution for those age 50 or older remains at $1,000. (You can contribute to both a traditional and Roth IRA in 2016, but your total contributions can't exceed these annual limits.)

Roth IRA contribution limits for 2016

The income limits for determining how much you can contribute to a Roth IRA have increased for 2016. If your filing status is single or head of household, you can contribute the full $5,500 to a Roth IRA in 2016 if your MAGI (Modified Adjusted Gross Income) is $117,000 or less (up from $116,000 in 2015). And if you're married and filing a joint return, you can make a full contribution in 2016 if your MAGI (Modified Adjusted Gross Income) is $184,000 or less (up from $183,000 in 2015). (Again, contributions can't exceed 100% of your earned income.)

Employer retirement plans

All of the significant employer retirement plan limits for 2016 remain unchanged from 2015. The maximum amount you can contribute (your "elective deferrals") to a 401(k) plan in 2016 is $18,000. This limit also applies to 403(b), 457(b), and SAR-SEP plans, as well as the Federal Thrift Plan. If you're age 50 or older, you can also make catch-up contributions of up to $6,000 to these plans in 2016. (Special catch-up limits apply to certain participants in 403(b) and 457(b) plans.)

If you participate in more than one retirement plan, your total elective deferrals can't exceed the annual limit ($18,000 in 2016 plus any applicable catch-up contribution). Deferrals to 401(k) plans, 403(b) plans, SIMPLE plans, and SAR-SEPs are included in this aggregate limit, but deferrals to Section 457(b) plans are not. For example, if you participate in both a 403(b) plan and a 457(b) plan, you can defer the full dollar limit to each plan--a total of $36,000 in 2016 (plus any catch-up contributions).

The amount you can contribute to a SIMPLE IRA or SIMPLE 401(k) plan in 2016 is $12,500, and the catch-up limit for those age 50 or older remains at $3,000.

Note: Contributions can't exceed 100% of your income.

The maximum amount that can be allocated to your account in a defined contribution plan (for example, a 401(k) plan or profit-sharing plan) in 2016 is $53,000, plus age-50 catch-up contributions. (This includes both your contributions and your employer's contributions. Special rules apply if your employer sponsors more than one retirement plan.)

Finally, the maximum amount of compensation that can be taken into account in determining benefits for most plans in 2016 is $265,000, and the dollar threshold for determining highly compensated employees (when 2016 is the look-back year) is $120,000, both unchanged from 2015.

RMDs

What Are Required Minimum Distributions (RMDs)?

Required minimum distributions, often referred to as RMDs or minimum required distributions, are amounts that the federal government requires you to withdraw annually from traditional IRAs and employer-sponsored retirement plans after you reach age 70½ (or, in some cases, after you retire). You can always withdraw more than the minimum amount from your IRA or plan in any year, but if you withdraw less than the required minimum, you will be subject to a federal penalty.

The RMD rules are calculated to spread out the distribution of your entire interest in an IRA or plan account over your lifetime. The purpose of the RMD rules is to ensure that people don't just accumulate retirement accounts, defer taxation, and leave these retirement funds as an inheritance. Instead, required minimum distributions generally have the effect of producing taxable income during your lifetime.

Which Retirement Savings Vehicles Are Subject to the RMD Rules?

In addition to traditional IRAs, simplified employee pension (SEP) IRAs and SIMPLE IRAs are subject to the RMD rules. Roth IRAs, however, are not subject to these rules while you are alive. Although you are not required to take any distributions from your Roth IRAs during your lifetime, your beneficiary will generally be required to take distributions from the Roth IRA after your death.

Employer-sponsored retirement plans that are subject to the RMD rules include qualified pension plans, qualified stock bonus plans, and qualified profit-sharing plans, including 401(k) plans. Section 457(b) plans and Section 403(b) plans are also generally subject to these rules. If you are uncertain whether the RMD rules apply to your employer-sponsored plan, you should consult your plan administrator or a tax professional.

Inherited IRAs and Retirement Plans

Your RMDs from your IRA or plan will cease after your death, but your designated beneficiary (or beneficiaries) will then typically be required to take minimum distributions from the account. A spouse beneficiary may generally roll over an inherited IRA or plan account into an IRA in the spouse's own name, allowing the spouse to delay taking additional required distributions until he or she turns 70½.

As with required lifetime distributions, proper planning for required post-death distributions is essential. You should consult an estate planning attorney and/or a tax professional.

Need Tax Deductions? Consider Making Qualified Charitable Contributions

Qualified charitable distributions (QCDs) are distributions made directly from an IRA to a qualified charity. Such distributions may be excluded from income and count toward satisfying any required minimum distributions (RMDs) you would otherwise have to receive from your IRA. Individuals age 70½ and older can make up to $100,000 in QCDs per year. This provision has been permanently extended.

Investment Tax Basics

Ordinary income

Examples of ordinary income include wages, tips, commissions, alimony, and rental income. Investments often produce ordinary income in the form of interest. Many investments--including savings accounts, certificates of deposit, money market accounts, annuities, bonds, and some preferred stock--can generate ordinary income. Ordinary income is taxed at ordinary, or regular, income tax rates.

Capital gain and loss

If you sell stocks, bonds, or other capital assets for more or less than you paid for them, you'll end up with a capital gain or loss. Special capital gain tax rates may apply. These rates may be lower than ordinary income tax rates.

Calculating gain or loss

Capital gain (or loss) equals the amount that you realize on the sale of your asset (i.e., the amount of cash and/or the value of any property you receive) less your adjusted basis in the asset. If you sell an asset for more than your adjusted basis, you'll have a capital gain. For example, assume you had an adjusted basis in stock of $10,000. If you sell the stock for $15,000, your capital gain will be $5,000. If you sell an asset for less than your adjusted basis in the asset, you'll have a capital loss.

Short term vs. long term

Generally, the amount of time that you've owned an asset is referred to as your holding period. A capital gain is classified as short term if the asset was held for one year or less, and long term if the asset was held for more than one year.

Whether your capital gain is classified as short term or long term can make a difference in how you calculate tax. Short-term capital gains are taxed at the same rate as your ordinary income. The tax rates that apply to long-term capital gains, however, are generally lower than ordinary income tax rates.

Long-term capital gain

For long-term capital gains, special tax rates apply. The maximum tax rate at which your long-term capital gains are taxed depends on which ordinary federal income tax rate bracket you fall into.

If your taxable income places you in the lowest two tax brackets for ordinary income tax purposes, a 0% tax rate generally applies to long-term capital gains. So, for 2016, if your filing status is single and your taxable income is less than $37,650, you'll generally pay no tax on long-term capital gains.

If you're in the 25%, 28%, 33%, or 35% tax brackets, the maximum rate that applies to long-term capital gains is generally 15%. If you're in the top federal tax bracket (39.6%), the maximum tax rate that applies is generally 20%.

Qualified dividends

If you receive dividend income, it may be taxed either at ordinary income tax rates or at the rates that apply to long-term capital gain income. If the dividends are qualified dividends, they're taxed at the same tax rates that apply to long-term capital gains. Qualified dividends are dividends paid to an individual shareholder from a domestic corporation or a qualified foreign corporation, provided that you hold the shares for more than 60 days during the 121-day period that begins 60 days before the ex-dividend date (a longer holding period requirement applies to dividends paid by certain preferred stock).

Some dividends (such as those from money market funds) continue to be treated as ordinary income. Generally, ordinary dividends are shown in box 1a of Form 1099-DIV, while qualified dividends are shown in box 1b.

Tax-exempt income

Some income is specifically exempted from federal income tax. For example, while the interest on corporate bonds is subject to tax at the local, state, and federal level, interest on bonds issued by state and local governments (generically called municipal bonds, or munis) is generally exempt from federal income tax. If you live in the state in which a specific municipal bond is issued, it may be tax free at the state or local level as well. Note that the income from Treasury securities, which are issued by the U.S. government, is exempt from state and local taxes but not from federal taxes.

Michelle's Recipe Corner

Michelle Cline
Administrative Assistant

Autumn's arrival brings cooler temperatures, changing leaves, and football season. With so many things to do during this time of year, Michelle would like to share one of her favorite crockpot dinner recipes. It is a simple and delicious meal that is great for a busy family.

Crockpot Cream Cheese Chicken Chili

2 Boneless Chicken Breasts -still frozen (use 3 if small or if you like thicker chili)

1 can Rotel Tomatoes

1 can Corn (Do Not Drain)

1 can Black Beans—drained and rinsed

1 pkg. Ranch Dressing Mix

1 T. Cumin

1 Tsp. Chili Powder

1 Tsp. Onion Powder

1 8oz. Cream Cheese

Put chicken in the crock pot. Top with tomatoes, corn, beans, ranch dressing mix, cumin, onion & chili powders. Stir to combine then top with cream cheese.

Cook on Low 6-8 hours stirring once or twice to blend in the cream cheese. Shred chicken into pieces. You can serve over rice or with tortilla chips or taco shells.

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