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INSIDE:

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Don't miss our blog
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Five tax saving ideas you can do NOW to save on LAST year's taxes

If there is one thing we like more than saving taxes, it's highlighting tools and techniques that we can do now that will in effect reach back to last year's taxes and help us save, especially so near our annual settle up time.

John A. Kvale, CFA, CFP ®

The following ideas first appeared in our blog at street-cents.com in more abbreviated forms.

The HSA – Health Savings Account

This is one of our favorite savings plans because it does not phase out or have income limitations.

An HSA is a pre-tax savings plan for those with high deductible health insurance plans. The best way to find out if you have a high deductible plan

(see **Savings,** Page 2)

Market news

Recent market clarity and a follow up to the VIX updates from last newsletter

Capital markets are ruthless, much like a sleeping giant. Once you wake them, they may change personalities on you. Taking them for granted or not respecting and managing risk can cause trouble.

No later than our last newsletter (Q1 2018) did we outline the VIX index as a fear gauge and how sleepy it had gotten. VIX, the

(see **Several,** Page 5)

Roth or regular IRA? AKA PRE-tax or AFTER-tax retirement savings optimization decision

It is easy to get confused when saving for retirement with so many options. What follows is a reminder of which type of savings is better given a specific situation.

Roth, non-deductible IRA and Roth 401k's are essentially after-tax contributions that grow tax deferred. The Roth also has the

(see **Roth,** Page 7)

Five tax saving ideas

Savings into HSA grow tax deferred; SEP offsets non-W-2 income

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is to check with your insurance carrier. Be sure to check if your entire family has HSA availability or just the primary person.

Savings into an HSA grow tax deferred and can be distributed tax free as long as they are used for medical expenses. We will all have future medical expenses, which is why we like the feature of not having to spend the HSA contributions yearly, which allows a build up for future use.

Most plans have investment options allowing for optimal growth on contributions while being stored for later use.

Watch out - **Contributions must be made by the regular filing deadline, even If you file an extension, if you want to get the write off for the PRIOR year.**

Contribution limitations for 2017 are $3,400 for individuals and $6,750 for families. Frequently we see employers kindly making partial contributions to plans for employees but not at the maximum level. If your employer makes a partial contribution to an HSA plan for you, it is usually possible for the employee to make up the difference to reach the maximum level, a technique we encourage, thereby also getting additional dollars contributed to the account and a tax write off.

Unfortunately, the fun ends at age 65 as the HSA contribution is not allowed once beyond this age.

We like the HSA, encourage contributions to the plan if available and are happy to have dollars continue to build for future medical needs.

If you have the option of doing an HSA, strongly consider utilizing this plan.

The Simplified Employee Pension – SEP

One of our absolute favorite tax savings tricks to reach back to prior years AND to offset Non W-2 income, is the SEP or Simplified Employee Pension.

What is a SEP?

Think of a SEP as a beefed up, very flexible personal retirement plan that has high limits, total flexibility and can even work in tandem with other retirement programs as long as maximum contribution amounts are not reached.

TAX SAVING IDEAS

SEP's operate almost like an IRA on steroids, so much so that under recent laws, in most cases a SEP contribution can be made into an IRA Account...

SEP's operate almost like an IRA on steroids, so much so that under recent laws, in most cases a SEP contribution can be made into an IRA, negating the need to open ANOTHER new account.

A SEP is used to offset Non-W-2 income that may come from a self-employed business owner, self-employed consultant, business owner of some type that shows income after expenses or even a W-2 employee that receives some income on an annual basis via a 1099 or Non-W-2 compensation.

The maximum contribution amount to a SEP is $54k for 2017 and of course contributions can be done today, against last year's income taxes, another of our reach back favorites. If you are in a situation where you have a 401k at a W-2 employer and 1099 SEP off-settable income, be sure to check the maximum limitations for your situation as the IRS will not let us just max out a 401k AND do a full SEP – that is just too good!

RMD's are the government's Required Minimum Distribution of our pre-tax retirement funds in order to mandate we as tax payers eventually DO pay taxes. The SEP is so flexible that a tax payer can actually have current mandated RMD's AND make a contribution to a SEP. Certainly this is money in and money out but every bit of tax savings adds up, especially over the long run.

Procrastinators, listen up! A SEP, unlike many programs, can be contributed to as late as your extended tax return filing. Currently for tax year 2017, if you file an extension you may be able to make your SEP contribution as late as October 15, 2018; that's almost 2019 and a great runway of time to have such flexible tax savings. We always suggest the SEP contribution be made PRIOR to

(see IRA, Page 3)

Five tax saving ideas

IRA oldie but goodie; sales tax deduction based on geographic area

(continued from Page 2)

your actual income tax filing date, just to be extra safe.

Maximum amounts are restricted by your AGI (Adjusted Gross Income or earnings) but in many cases still allow for a large contribution. Check with your tax professional or fire up that tax software program for your contribution limit. It is likely well worth the review and again can have great "reach back" to last year's tax savings.

Some things get better with age and we would say this technique may be one of those. The pre-tax qualified IRA, an oldie but a goodie.

The IRA is one of the first retirement savings vehicles created, and with such tenure, is often forgotten.

A pre-tax Individual Retirement Account (IRA) is an account, that you may have noticed by how clearly we are defining this, has many different offspring. We are not big fans of after tax IRA contributions and will not even go there in this discussion for confusion and dislike sake. The pre-tax IRA is an account that a contribution is made to and most importantly, a tax write off is also credited for the appropriate year, making it pre-tax. It is possible to contribute to an IRA and not take the write off, making it an after tax IRA and not one of our recommended items due to complexity of distributions at retirement. (Be sure to check out the Roth or IRA article in this newsletter as it explains this concept in greater detail.)

The IRA is portable, accepts all types of contributions (SEP, 401k Rollover, 501c) over your lifetime and is one of the stalwarts of pre-tax savings.

The maximum contribution level for an IRA is $5,500 and $6,500 for those age 50 or greater.

If you do not have another qualified plan, you are free to make a pre-tax qualified IRA contribution no matter your income level. Think W-2 employee without a retirement plan.

Unlike the SEP, an IRA only has higher bands of income restricting contribution. Said another way, if your income is low, you can still make the maximum contributions as long as you qualify; not so with the SEP as its deferral amount is a function of your adjusted gross income.

TAX SAVING IDEAS

IRA's are portable in that they can easily be transferred, as mentioned earlier can accept all types of contributions and have terrific death benefit tax stretching techniques...

If you do not have another qualified plan but your spouse does, your modified adjusted gross income cannot be over $196k or you cannot take a deduction for your IRA.

If you are single and have a qualified plan, you cannot make more than $72k and take an IRA deduction.

Bottom line on the IRA, it is a good idea to let your professional or the software tell you if you can make a deductible pre-tax qualified IRA contribution but even with it's vintage, it may still be a great plan applicable to your situation.

Watch out – **Similar to the HSA, contributions must be made by the regular filing deadline even if you file an extension if you want to file for the PRIOR year.**

IRA's are portable in that they can easily be transferred, as mentioned earlier can accept all types of contributions and have terrific death benefit tax stretching techniques available to your heir.

While an oldie, the IRA is still a goodie, just a bit harder to qualify for with today's new more restrictive tax laws. If you can qualify, do not pass it up.

Sales tax deduction

This deduction is most applicable in states that do not have a state levied income tax. Those states with a state income tax may tend to offset this deduction. Check with your professional or software before electing this if you live in a state with taxes.

Assuming you live in a state that does not have state income taxes or if they do, they are very low.

Sales tax deduction is the standard deduction that

(see Medical, Page 4)

Five tax saving ideas

Medical deduction may not be reach back but saves tax dollars

(continued from Page 3)

you receive based on your geographic area and your income. This deduction flowing into your itemized deductions (you must itemize to claim) shows up on Schedule A, number 5 B.

Here are a few items that may make your standard sales tax deduction drastically inaccurate and woefully low- thereby costing you tax dollars:

Bought a large asset – think car or other similar item

Had more than normal personal taxed expenses – for whatever reason

Large taxable asset of any kind purchased

Major expense where you paid sales tax – think wedding, large party

If you review your standard deduction and you find that one or two of your larger ticket items gets you above your standard, begin adding all of the items you paid sales tax on during the year. **There is no limit to this amount of deduction but you must be able to prove you actually spent this amount.** Handy tricks include getting an itemized statement from your credit card company or bank so as to easily calculate your sales tax total paid on these items.

While not necessarily a reach back write off, we view any findings of tax saving now, for last year a good find.

The fun ends this year as this item has been limited moving forward due to new tax laws, so be sure to think about your total sales expenditures last year if you are over the standard, then maximize your amount. We do not know when we will get access to this savings again. Let's make the most of it if applicable.

Medical expense deduction

Medical expenses similar to the sales tax deduction are not necessarily reach back deductions but the collection of medical expenses that you may have otherwise missed will certainly save you tax dollars for LAST year's taxes, giving it reach back status in our eyes.

For 2017, any qualified un-reimbursed medical expenses greater than 7.5% of our adjusted gross income is deductible again in Schedule A. We had to put the un-reimbursed in there as the IRS is very particular on this point; but let's be fair here, if you were reimbursed for your medical expenses you really did not pay out of your pocket.

What is a qualified medical expense?

This is another one of those times when we take heat from the field of tax payers because we truly believe the IRS is being very fair and broad concerning qualified medical expenses.

Publication 502 (https://www.irs.gov/publications/p502) outlines the various medical expenses you may have incurred and their possible deductibility.

As the publication outlines, there are a TON of deductible medical expenses, many you may not have ever thought of. Here are a few that we find interesting and easy to miss/forget:

Capital expenses for needed changes to your home – think home remodel for access or other health related issue

Transportation – cost of getting to and from your needed medical services

Telephone – cost of needed equipment for visual or increased audio for those hard of hearing

Television – the cost of an adaptor or other devise for visually impaired or those hard of hearing

We promise the list goes on and on in the publication. If you have any questions, please take a look as it is very likely to remind you of something you did not include, thereby losing your tax deduction.

We have found this collection of the big five to be big tax savers over the last three decades of tax seasons. Repeatedly, we see these being not maximized, missed or just forgotten.

Now we have been reminded. Reach out if you have any questions. Next year's list should be interesting with all the new tax laws. Stay tuned. JK

TAX SAVING IDEAS

We have found this collection of the big five to be big tax savers over the last three decades of tax seasons. Repeatedly we see these being not maximized, missed or just forgotten.

Market news

Market reverts back, gorges higher than normal

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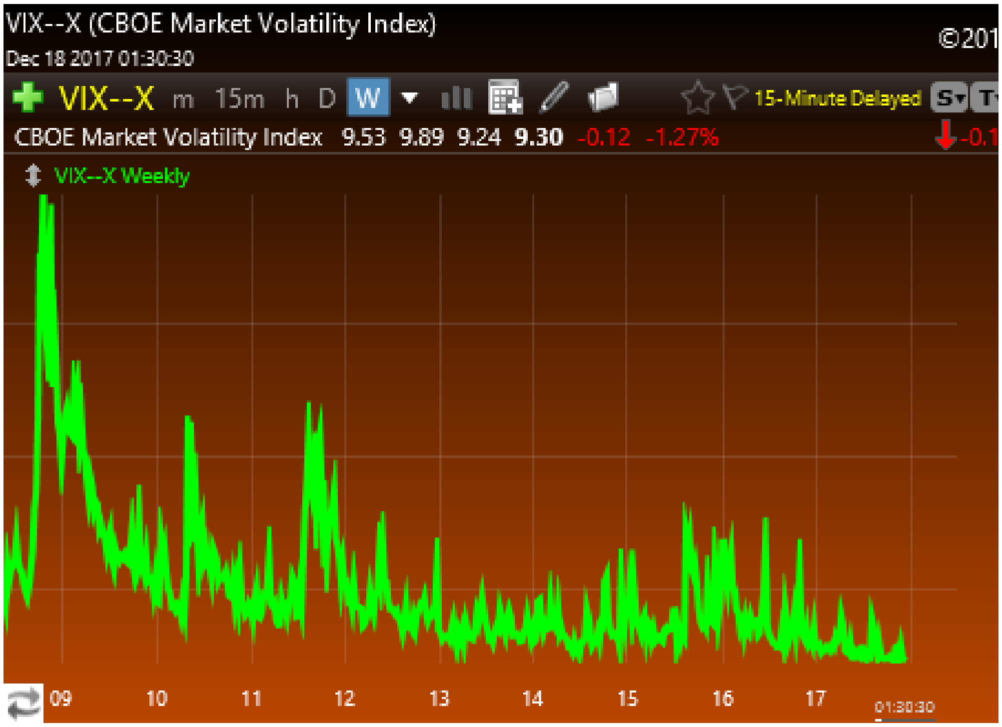
fear gauge had dropped below 10 only nine times since it's creation in 1990 starting in the year 2017.

Here is the actual chart (at right) from our last newsletter.



In the year 2017 the VIX closed below ten 49 times; yes, 49 times! While we warned not to let our guards down and to expect a reversion back to more normal times, we had no idea how fast the sleeping giant would awaken.

The next chart (below) shows the VIX more recently. Days below 10 are long gone and in true market like form, not only did it revert back to more normal times but have gorged higher than norm for the time being, to even more fearful times.

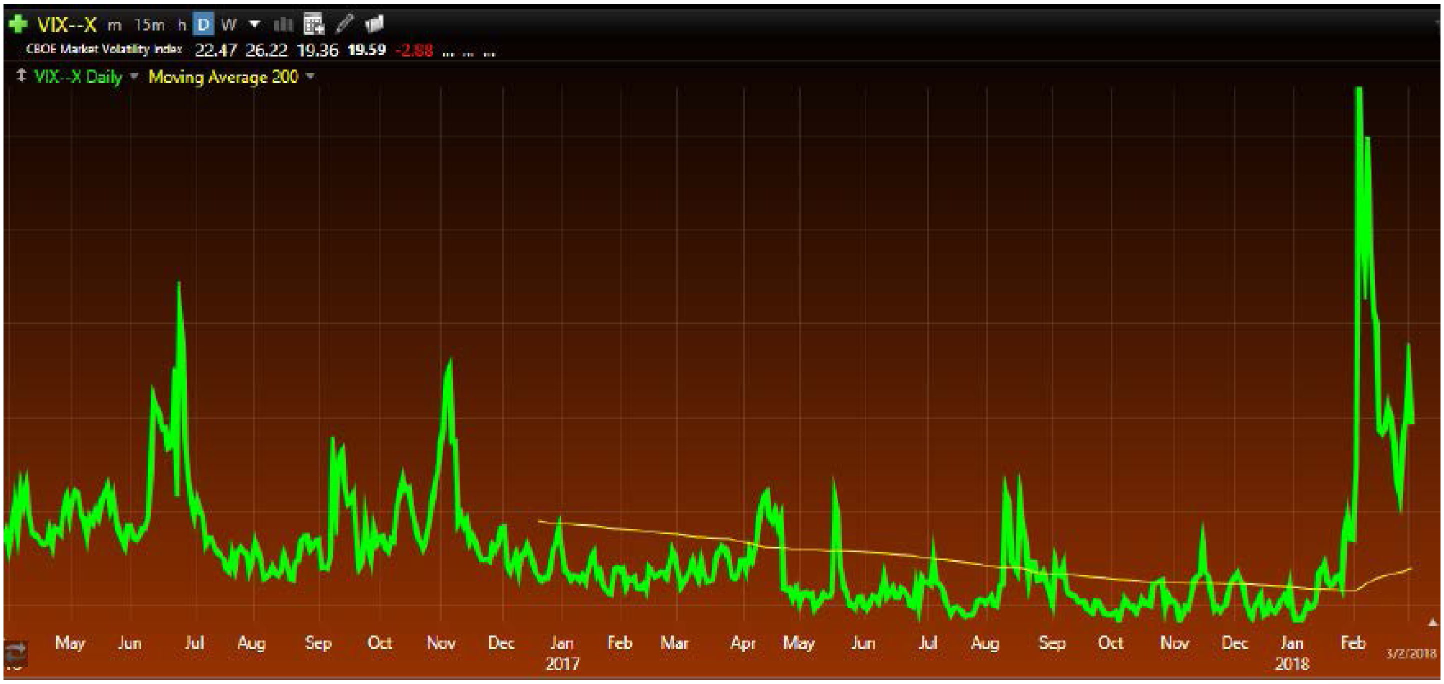
Awakening the sleeping giant with a little help from our crazy friends on Wall Street

We want to be careful of throwing our own industry under the bus at times, but every once in a while, you just have to call a spade a spade.

While WE warned of a reversion back to more volatile and normal times, some on Wall Street rolled out products that bet on a continued sleepy VIX or fear, essentially shorting a sleeping giant.

What is most surprising about this type of product other than the real fact that investing in it is like picking up nickels in front of a steam roller, was the dollar size of investment money allocated to this, as you can see by the chart (top, Page 6) there is not that much money in this type

(see **More,** Page 6)



More than one item brings sudden jolt to reality

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of investment anymore as within a day, several billion dollars were lost.

Note the catchy name, XIV – the mirror of VIX.

Ok, so some silly investors lost money in a silly investment, but what these products also did in effect was to exaggerate much of the sudden more normal market volatility.

The sudden jolt back to reality felt unusual, especially given the placid ride we had been on. This was not where all the blame falls.

More than one item – just like a traffic accident

Just like when a traffic accident occurs, there was more than one thing that went wrong to awaken the giant, the XIV was not the only item.

As mentioned in our street-cent.com blog before the shake up, capital markets were on an unsustainable path anyway.

The white trend line is about a 20% unsustainable trend line, then next red trend line a 30%, and then the final line a 60% annual growth trend line – none of which are sustainable and realistic. While it took some time, reality has finally set in, and just like we mentioned during the VIX sleepiness, growth is likely to be more normal moving forward as well.

Interest rates – another factor

While we have been proponents of higher interest rates, a fast move would create a headwind for capital markets or at least another excuse for participants to worry.

In a "can't make this up" bit of humor and coincidence, much of this sudden return to normal times were occurring literally as Jerome H. Powell was being sworn in as the new Federal Reserve Chairman (FOMC).

Rates need to be raised and the new FOMC chief is on record as preparing to do so; however, moving rates higher too fast and creating an inverted yield curve would be a much more serious issue. (More on this soon!)

So maybe the sleeping giant has been awakened for whatever reason; however, the best news is, the consumer remains confident, earnings are good, and we have a global recovery underway for the first time in many years. All positive items but patience will likely be needed. JK

Roth fits lower income years

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feature of distributions being tax free at or during retirement. Deductible IRA, 401k, 501c3 type savings are generally pre-tax saving vehicles allowing for a tax deduction in the credited year.

The most popular after-tax savings vehicle, the Roth, has the following limitations for 2017:

Maximum contributions: $5,500 and $6,500 for those age 50 and over

Maximum income level: single $133k, married $196k - annually

For reasons beyond the scope of this discussion, if your tax rate is exactly the same while working as it is in retirement (unlikely) an after-tax savings vehicle such as a Roth and an pre-tax IRA will have the exact same end result. This is an unlikely scenario as generally the average person has a LOWER tax rate in retirement than they do while working.

Which plan should I do?

It's actually not as hard of a decision as it may seem at first. During lower income earning years it makes more sense to do a Roth. During higher income earning years, not only will you likely not be able to do a Roth (see prior limitations) but a Roth makes less sense anyway, as the pre-tax savings component will more than offset your higher income during the working years.

In practice we see the Roth WAY overused and promoted. In actuality, the Roth is a nice vehicle but not really the most efficient option in most cases. We would even caution one for jumping into a Roth in a low income earning year as many stranded and straggling Roth's are created this way.

App of the quarter: weather

This quarter's App is one you may already have on your phone. If not, we hope you may consider adding it, and if you do, we hope to show you a couple of neat features you may not be aware.

Newbies to our newsletters, a year or so ago, we set off to break up the financial *"stuff"* with some fun, and also open the table to you in the field for suggestions.

As an avid golfer (don't get to play much anymore but all good) and a full family of tennis players, the weather plays a big part of our weekend plans, especially during the usual tournament weekends.

The Weather App is a free download and will fire up your local weather in an instant. Be careful if you become the weather person in your family as you will be the go-to person EVERY morning!

One of the neat things you may not know about this app is the ability to search and follow other locations that you may be traveling to or just have friends or relatives in a certain part of the country. This app along with the actual channel had repeated use last year as mother nature flexed her muscles.

The favorite feature, and less known, is the alert and follow me feature. If you create an account, sign into the Weather Channel App and allow your phone to receive texts, and run silently (no battery drain) you will be notified of pending weather in your area.

Weather App
- free download
- search and follow other locations
- alerts
- follow me feature

Recently at a tennis tournament that had been delayed until very late on a Sunday evening, a notification was sent that it would rain in 15 minutes briefly. At that moment several people checked other services they had on their device, none of which showed any rain.

Sure enough, in almost exactly 15 minutes the rain came and the Weather App had a dozen or so new downloads from tennis parents. The accuracy has and continues to be very good and timely.

We hope you give it a try and consider creating an account in order to get accurate, timely information sent you. Enjoy!

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Parting thoughts for you...

This quarter's closing comments come with very special wishes to a team member.

Cathy to retire

Congratulations to Cathy on her retirement after over 11 years at our firm. As you read this newsletter, Cathy will be putting the finishing touches on a new home outside of the Dallas area and retirement greets her in the next chapter.

We look forward to seeing her at the holiday parties for years to come. Thanks for all you have done. It's amazing that it went so fast.

Tax talk

You may have noticed we did not say ANYTHING about the new tax laws that started in 2018. Our go to experts and CPA likes are working on understanding the laws and completing 2017 taxes with the deadline looming. We would be particularly careful on actions regarding the new tax laws as we have seen multiple contradictory reports already. Better safe than sorry. We will be rolling out solid tax planning and facts over the remainder of the year.

VIX and XIV

Just after our last newsletter, where we mention how sleepy the VIX- a fear gauge was, the giant was awakened by none other than the opposite, a product of wall street called XIV. It is amazing how much money flowed into such a risky investment. We hope you enjoy our review and how it relates to the current market.

Have a great Spring! Talk to you again in the summer!

New knowledge sites

Weatherchannel.com -our app of the quarter

Fred.stlouisfed.org- Go to data and graph service- St. Louis Federal Reserve

Marchmadness.com- College basketball March tournament

Dates:

Good Friday, March 31 - Capital Markets Closed

Mother's Day, May 13

Father's Day, June 17