



Online Advisor

- NOVEMBER 2016 -

MAJOR TAX DEADLINES

NOVEMBER 2016

During November:

Estimate your 2016 income tax liability and review your options for minimizing your 2016 taxes. Plan withdrawals from your retirement accounts, consider wash sale rules when making stock sales, and update your annual gift-giving program to take advantage of the annual exclusion. Call us to schedule a tax-planning session to discuss these and other strategies.

WHAT'S NEW IN FINANCES:

Review your retirement paycheck

If you worked in a traditional job before retirement, you may have had an annual discussion with your manager about your performance and

The end of the year is quickly approaching! Please be on the look out for an email next week containing your online tax planning guide. We wish you and your families a very happy and restful Thanksgiving holiday.

We are happy to announce that we are sponsoring TWO charity drives this year!

Bridge of Books Foundation seeks to provide books to underprivileged children throughout New Jersey! We will have a collection box set up in our office at 300 Executive Drive, Suite 200, West Orange, NJ. New books, used books, all are welcome! Check out their website for more specific guidelines.

<http://bridgeofbooksfoundation.org/>

The next charity drive specifically benefits children in Essex County. The children in foster care get a Holiday Party through FAFS each year, and it's often the only time they receive gifts. Help out and donate gifts for infants through teens! You don't even have to wrap them-just come put them in our collection box! The children of Essex County will thank you! Check out the website for more information:

<https://www.fafsonline.org/gifts-for-foster-children/>

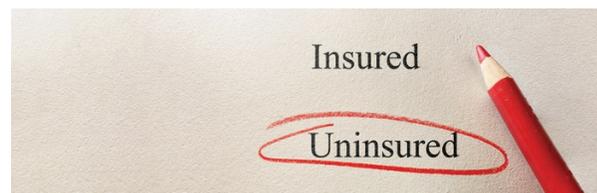
The partners and staff of Couto DeFranco, P.A.



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WHAT'S NEW IN TAXES: HEALTH INSURANCE PENALTIES ARE HIGHER THIS YEAR

From November through January 31, 2017, you can sign up for a health insurance policy on the government Marketplace. You can also change or



renew the policy you purchased during the last enrollment period. Even if your current policy has an automatic renewal feature, you'll want to verify that you're getting the best deal, and that you are still eligible for the federal premium tax credit.

What if you didn't sign up last winter and didn't have health insurance coverage in 2016? Unless you qualify for an exemption, you may owe a penalty on your 2016

changes to your paycheck. After you retire, you'll be the one who determines how much your "paycheck" will be, based on your assets and how you choose to invest them. A standard method of calculating the amount to withdraw from your accounts has been to use a flat 4% of your initial asset balance and adjust for inflation each year.

These days, continued low interest rates may mean you'll need to consider other strategies. For example, you could choose to follow the IRS life expectancy tables, which are typically used to calculate distributions from IRAs. More complex methods are also available. Whatever technique you use, keep the ultimate goal in mind: making your assets last as long as you need them.

WHAT'S YOUR RETIREMENT PLAN WITHDRAWAL STRATEGY?

Planning for retirement doesn't end when you stop working. Instead, the questions shift from how to save for retirement to how to begin withdrawing from your accounts. Here are tips for making the most of retirement plan withdrawals.

* Know the basic rules. When you withdraw funds from a regular IRA or 401(k), you'll pay federal income tax at the same

federal income tax return. The penalty is calculated two different ways: as a percentage of your income, and on a per-person basis. You pay whichever is higher.

For 2016, the penalty is 2.5% of your annual household income, up to a maximum of the national average premium for a Bronze plan. The national average premium amount used for the penalty calculation is \$223 per individual per month, with a cap of \$1,115 for a family of five or more.

The per-person penalty is \$695 per adult and \$347.50 per child under 18. The maximum penalty is \$2,085.

HEALTH INSURANCE TAX LAW: WILL YOU OWE THE SHARED RESPONSIBILITY PAYMENT?

The individual shared responsibility payment is a penalty for not obtaining and maintaining a minimum level of health insurance, and can apply no matter your age. The good news is that when you buy a health insurance policy meeting minimum requirements and you maintain coverage for the entire year, no penalty is due. That's true even if you experience a gap in coverage of less than three months.

Otherwise, unless you qualify for an exemption, such as unaffordable coverage or a specified hardship, you'll owe the penalty, and you'll calculate your payment when you complete your federal income tax return. For example, if you chose to not sign up for health insurance during 2016, you'll pay the penalty with your tax return next April. How much will the penalty be? That depends on how long you were without coverage, as well as your income and the number of people in your family. The penalty has an upper limit that is adjusted each year.

If you're expecting a refund on your tax return, be aware the amount you're expecting to receive can be reduced when you owe a penalty. Though the IRS is prohibited from garnishing your wages or filing a lien for an unpaid penalty, interest will accrue on the balance.

The individual shared responsibility payment is scheduled to increase over time. Give us a call to discuss whether the penalty or one of the exemptions will apply to you.

ARE YOUR WORKERS INDEPENDENT CONTRACTORS OR

EMPLOYEES?

If you're a business owner, you have financial incentive to want to classify workers as independent contractors rather than as employees. Why? One reason is that you're required to withhold and pay taxes on employee wages, and you may need to offer employee benefits such as paid time off and pension contributions. None of these are required with independent contractors.

While the IRS generally scrutinizes worker classification closely, you may have legitimate reasons for hiring independent contractors. The facts and



rate as your other ordinary income, which could lead to a surprising tax bill come April 15th. Worse, you can only put off withdrawals from these accounts until age 70½, when required minimum distributions kick in. (An exception is if you have a 401(k) and are still working for the company where you have the account. In that case, you can delay withdrawals from that plan.)

Withdrawals from a Roth IRA are tax-free and are not subject to required minimum distribution rules.

* Consider delaying withdrawals. In the years prior to age 70½, you might consider keeping your retirement accounts untapped and instead live off capital gains within a taxable account. The advantage: the tax rate on long-term capital gains is likely lower than your marginal rate.

* Remember the fundamentals. No matter when you begin withdrawing funds, you will have a portfolio of securities to monitor and decisions to make regarding what to sell. Consider selling volatile securities first, leaving safer investments for later in life when you have less time to recover from a mistake. At the same time, avoid being too conservative, especially in the early years of retirement.

Your retirement plan withdrawal strategy could impact the taxation of your social security

legitimate reasons for hiring independent contractors. The facts and circumstances decide the proper treatment of your workers - and getting the classification right will help you avoid the prospect of back payroll taxes, penalties, and interest.

So how do you go about getting the classification right? Start by reviewing the degree of control your business has over the worker and the job function. For example, your company may have the right to control how and when the worker does a job. That's called behavioral control, and can mean the worker is an employee.

How do you pay the worker - by the hour or by the job? Who provides the tools and supplies for the job? The answers to these questions indicate the level of financial control you exert over the worker. The more control, the more likely the worker is your employee.

What sort of relationship does your business have with the worker? Is there a written contract between your business and the worker spelling out the division of rights and responsibilities? Is the job for your company ongoing, or does the worker perform services for other customers? Those factors can separate workers from independent contractors.

Arriving at the proper classification requires examining all aspects of your business relationship with the worker. If you need assistance, give us a call. We'll help you review the facts and explain your options.

We hope you found this information helpful. Call today to schedule your appointment to start getting into financial shape!

973.325.3370

Sincerely,

The Partners and Staff
Couto DeFranco, P.A.

EXCITING COUTO DEFRANCO NEWS:

We've been recognized as
"Top Wealth Managers in NJ"

3rd Year in a Row!!



benefits as well as your eligibility for certain deductions. Contact us for additional suggestions for tax-efficient retirement account withdrawals.



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Anthony DeFranco, Partner

Nelson Couto and Anthony DeFranco honored with a recognition by NJ Monthly Magazine in its selection of "Top Wealth Managers In NJ 2016"

Nelson Couto, CPA, CFP® and Anthony DeFranco, CPA, CFP®, MS (Taxation) of Couto DeFranco, P.A. have been named as 2016 Five Star Wealth Managers and featured in New Jersey Monthly magazine January 2016. Out of the 5063 wealth managers in New Jersey who were seriously considered for the award, 672 were named. This is their third time winning this prestigious award.

"We are delighted to be acknowledged as a Five Star Wealth Manager by New Jersey Monthly, and proud that the work we have done for our clients has been recognized," says Anthony DeFranco.

Couto and DeFranco are recognized as leaders in the field of wealth management. They combine their knowledge of financial planning with over 25 years as CPAs, helping their clients with their wealth management and tax planning needs, along with assisting them with their financial goals and aspirations.

They believe the best way to help clients reach their financial goals is simple: to listen. "It is important to listen to where they are today and where they want to be tomorrow," says Nelson Couto. The partners feel that clients are paying them for their knowledge-both as NJ Certified Public Accountants and as Certified Financial Planner™ professionals-so it is their responsibility to develop a financial plan that is sound, objective and honest. This model has been their secret to success.

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