



BODNAR FINANCIAL ADVISORS INC

Client Quarterly Newsletter

Will vs. Trust: Is One Better Than the Other?



may help you decide which strategy is better for you.

What is a will?

A will is a legal document that lets you direct how your property will be dispersed (among other things) when you die. It becomes effective only after your death. It also allows you to name an estate executor as the legal representative who will carry out your wishes.

In many states, your will is the only legal way you can name a guardian for your minor children. Without a will, your property will be distributed according to the intestacy laws of your state. Keep in mind that wills and trusts are legal documents generally governed by state law, which may differ from one state to the next.

What is a trust?

A trust document establishes a legal relationship in which you, the grantor or trustor, set up the trust, which holds property managed by a trustee for the benefit of another, the beneficiary. A revocable living trust is the type of trust most often used as part of a basic estate plan. "Revocable" means that you can make changes to the trust or even end (revoke) it at any time. For example, you may want to remove certain property from the trust or change the beneficiaries. Or you may decide not to use the trust anymore because it no longer meets your needs.

A living trust is created while you're living and takes effect immediately. You may transfer title or "ownership" of assets, such as a house, boat, automobile, jewelry, or investments, to the trust. You can add assets to the trust and remove assets thereafter.

How do they compare?

While both a will and a revocable living trust

enable you to direct the distribution of your assets and property to your beneficiaries at your death, there are several differences between these documents. Here are a few important ones.

- A will generally requires probate, which is a public process that may be time-consuming and expensive. A trust may avoid the probate process.
- In order to exclude assets from probate, you must transfer them to your revocable trust while you're living, which may be a costly, complicated, and tedious process.
- Unlike a will, a trust may be used to manage your financial affairs if you become incapacitated.
- If you own real estate or hold property in more than one state, your will would have to be filed for probate in each state where you own property or assets. Generally, this is not necessary with a revocable living trust.
- A trust can be used to manage and administer assets you leave to minor children or dependents after your death.
- In a will, you can name a guardian for minor children or dependents, which you cannot do with a trust.

Which is appropriate for you?

The decision isn't necessarily an "either/or" situation. Even if you decide to use a living trust, you should also create a will to name an executor, name guardians for minor children, and provide for the distribution of any property that doesn't end up in your trust. There are costs and expenses associated with the creation and ongoing maintenance of these legal instruments.

Whether you incorporate a trust as part of your estate plan depends on a number of factors. Does your state offer an informal probate, which may be an expedited, less expensive process available for smaller estates? Generally, if you want your estate to pass privately, with little delay or oversight from a probate court, including a revocable living trust as part of your estate plan may be the answer.

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By the time you're reading this note, I will be tying the laces of my tuxedo shoes to walk my daughter down the aisle, the second Bodnar child to get married this year. The year 2016 will be a year my wife Karen and I will never forget.

Speaking of parties- Bodnar Financial will be celebrating the holiday season in our new office space. Enclosed is an invitation to our holiday party on Friday, December 2nd. We hope to see you there, and as always, bring a friend!

In spite of all the upcoming smiles and good times, the calendar ticks along. There are still financial planning issues that need to be accomplished before year-end. Enclosed is our annual tax-loss selling worksheet. If you want us to review your taxable investment holdings, you must return this form or call to discuss.

Two kids married in 1 year- don't you think the Tax Man should give me at least one year off???

Winter 2016

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Are You Ending 2016 Healthy, Wealthy, and Wise?



**All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.*

Although the year is drawing to a close, you still have time to review your finances. Pausing to reflect on the financial progress you made in 2016 and identifying adjustments for 2017 can help you start the new year stronger than ever.

How healthy are your finances?

Think of a year-end review as an annual physical for your money. Here are some questions to ask that will help assess your financial fitness.

- Do you know how you spent your money in 2016? Did you make any progress toward your financial goals? Look for spending habits (such as eating out too much) that need tweaking, and make necessary adjustments to your budget.
- Are you comfortable with the amount of debt that you have? Any end-of-year mortgage, credit card, and loan statements will spell out the amount of debt you still owe and how much you've been able to pay off this year.
- How is your credit? Having a positive credit history may help you get better interest rates when you apply for credit, potentially saving you money over the long term. Check your credit report at least once a year by requesting your free annual copy through the federally authorized website annualcreditreport.com.
- Do you have an emergency savings account? Generally, you should aim to set aside at least three to six months' worth of living expenses. Having this money can help you avoid piling up more credit-card debt or shortchanging your retirement or college savings because of an unexpected event such as job loss or illness.
- Do you have an adequate amount of insurance? Your insurance needs may change over time, so it's a good idea to review your coverage at least once a year to make sure it still meets your needs.

How wealthy are you really?

It's easy to put your retirement savings on autopilot, especially if you're making automatic contributions to a retirement account. But market swings this year may have affected your retirement account balances, so review any statements you've received. How have your investments performed in comparison to general market conditions, against industry benchmarks, and in relation to your expectations and needs? Do you need to make any adjustments based on your own circumstances, your tolerance for risk, or because of market conditions*?

Finally, look for ways to save more. For example, if you receive a pay increase this year, don't overlook the opportunity to increase your employer-sponsored retirement plan contributions. Ask your employer to set aside a higher percentage of your salary.

How wise are you about financial matters?

What you don't know can hurt you, so it's time to honestly assess your financial picture.

Taking into account your income, savings and investments, and debt load, did your finances improve this year? If not, what can you do differently in 2017?

What are your greatest financial concerns? Do you have certain life events coming up that you need to prepare for, such as marriage, buying a home, or sending your child off to college? You can't know everything, so don't put off asking for assistance. It's a wise move that can help you prepare for next year's financial challenges.

Year-End Financial Checklist

- ☒ Review your benefits during your employer's open enrollment season, and make any necessary changes before your employer's deadline.
- ☒ Use up any contributions to your flexible spending account (FSA) before the use-it-or-lose-it deadline (this may be the end of the year—check with your employer).
- ☒ Update estate planning documents such as wills, trusts, and health-care directives to account for life changes.
- ☒ Review and update beneficiaries for your financial accounts and insurance policies.
- ☒ Make year-end donations to charity. If you itemize, these may help reduce your taxable income for 2016.*
- ☒ Consider gifts to family members. For 2016, you may give up to \$14,000 to each individual without owing gift taxes.*
- ☒ Begin organizing your financial records for tax time.
- ☒ Check your Social Security Statement at ssa.gov to find out about future benefits.

*Talk to a tax professional for help with your individual situation.



Ten Year-End Tax Tips for 2016



Deductions may be limited for those with high incomes

If your adjusted gross income (AGI) is more than \$259,400 (\$311,300 if married filing jointly, \$155,650 if married filing separately, \$285,350 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2016 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

IRA and retirement plan contributions

For 2016, you can contribute up to \$18,000 to a 401(k) plan (\$24,000 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2016 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2016 IRA contributions.

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Set aside time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

2. Defer income to next year

Consider opportunities to defer income to 2017, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2017, could make a difference on your 2016 return.

4. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2016, prepaying 2017 state and local taxes probably won't help your 2016 tax situation, but could hurt your 2017 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

5. Bump up withholding to cover a tax shortfall

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest

advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2016 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

7. Take any required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

8. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

9. Beware the net investment income tax

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified AGI exceeds \$200,000 (\$250,000 if married filing jointly, \$125,000 if married filing separately, \$200,000 if head of household).

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.



Bodnar Financial Advisors, Inc

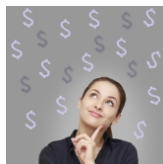
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Do I have to pay an additional tax on investment income?

You might, depending on a few important factors.

A 3.8% net investment income tax is imposed on the

unearned income of high-income individuals. The tax is applied to an amount equal to the lesser of:

- Your net investment income
- The amount of your modified adjusted gross income (basically, your adjusted gross income increased by an amount associated with any foreign earned income exclusion) that exceeds \$200,000 (\$250,000 if married filing a joint federal income tax return, and \$125,000 if married filing a separate return)

So if you're single and have a MAGI of \$250,000, consisting of \$150,000 in earned income and \$100,000 in net investment income, the 3.8% tax will only apply to \$50,000 of your investment income.

The 3.8% tax also applies to estates and trusts. The tax is imposed on the lesser of undistributed net investment income or the excess of MAGI that exceeds the top income tax bracket threshold for estates and trusts

(\$12,150 in 2014). This relatively low tax threshold potentially could affect estates and trusts with undistributed income. Consult a tax professional.

What is net investment income?

Net investment income generally includes all net income (income less any allowable associated deductions) from interest, dividends, capital gains, annuities, royalties, and rents. It also includes income from any business that's considered a passive activity, or any business that trades financial instruments or commodities.

Net investment income does not include interest on tax-exempt bonds, or any gain from the sale of a principal residence that is excluded from income. Distributions you take from a qualified retirement plan, IRA, 457(b) deferred compensation plan, or 403(b) retirement plan are also not included in the definition of net investment income.



How can I manage the net investment income tax?

If you are subject to the 3.8% net investment income tax, there are strategies that may help you manage that tax. The tax is applied to the lesser of

your net investment income or the amount by which your modified adjusted gross income (MAGI) exceeds the applicable income tax threshold. MAGI is basically adjusted gross income plus any associated foreign earned income exclusion. Any strategy you consider should be directed at the appropriate target.

If your net investment income is greater than your MAGI over the threshold, then your focus should be aimed at reducing your MAGI. Conversely, if your MAGI over the threshold is greater than your net investment income, you should try to reduce your net investment income.

Here are a few strategies that may help you manage the net investment income tax:

- Before selling appreciated securities, consider whether you can offset the gain with capital losses. Likewise, if you have any capital loss carryforwards, you should review your portfolio for capital gain opportunities to make use of the capital losses.

- Consider gifts of appreciated securities to tax-qualified charities.
- If passive income is from a business, offset passive income with passive losses. If you don't have passive losses, you may be able to convert the passive income to non-passive income (not subject to the tax) by becoming more active in the business.
- You may be able to reduce your MAGI by increasing contributions to a traditional IRA, 401(k), or 403(b).
- Consider investments that may have growth potential but typically do not generate dividends.
- Generally, any gains in tax-deferred annuities and cash value life insurance are not reportable as income unless withdrawn, which may help reduce both your MAGI and your net investment income.

While any of these alternatives may help reduce your net investment income or your MAGI, they may also affect your financial planning. So before implementing strategies to reduce or eliminate exposure to the net investment income tax, consult with a tax professional to help with your specific situation.

