

# Emerald Spectrum Advisory

## March Newsletter

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### March 2018

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Cartoon: It's Tax Time Again!

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## Due Date Approaches for 2017 Federal Income Tax Returns



Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of your 2016 tax return and gathering W-2s, 1099s, and

deduction records. You'll need these records whether you're preparing your own return or paying someone else to prepare your tax return for you.

### Don't procrastinate

The filing deadline for most individuals is Tuesday, April 17, 2018. That's because April 15 falls on a Sunday, and Emancipation Day, a legal holiday in Washington, D.C., is celebrated on Monday, April 16. Unlike in some years, there's no extra time for residents of Massachusetts or Maine to file because Patriots' Day (a holiday in those two states) falls on April 16 — the same day that Emancipation Day is being celebrated.

### Filing for an extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 15, 2018) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

Filing for an automatic extension does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the April filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the

IRS believes that your estimate was not reasonable, it may void your extension.

**Note:** *Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances you are generally allowed an automatic two-month extension (to June 15, 2018) without filing Form 4868, though interest will be owed on any taxes due that are paid after April 17. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.*

### What if you owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible. If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

### Expecting a refund?

The IRS is stepping up efforts to combat identity theft and tax refund fraud. New, more aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, since last year's tax filing season, the IRS has been required to hold refunds on all tax returns claiming the earned income tax credit or the refundable portion of the child tax credit until at least February 15.<sup>1</sup>

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a return.

<sup>1</sup> IRS.gov (IR-2017-181, IRS Encourages Taxpayers to Check Their Withholding; Checking Now Helps Avoid Surprises at Tax Time, October 30, 2017)

## Four Tips for Downsizing in Retirement



*Have you considered downsizing in retirement?*

Going through years of accumulated possessions and memories is probably not how you envisioned spending part of your retirement. It may sound like a daunting and emotionally draining task, but downsizing could be a savvy financial move, especially if you haven't reached your retirement savings goals.

### 1. Set goals for downsizing

Before you make any decisions, think about why you might want to downsize in the first place. Is it because you want to save on mortgage payments or other monthly expenses? Or are you looking to free up some cash to help pursue your lifestyle goals in retirement?

No matter what your specific goals may be, understanding the connection between them and downsizing can help motivate you to follow through with it.

### 2. Determine the best time to downsize

It's said that timing is everything, so choosing when to downsize will be an important decision to make. One benefit of downsizing early in retirement is that mortgage payments and other related expenses (such as utilities and real estate taxes) could decrease, presuming that you are downsizing to a less expensive residence. This could mean you have extra funds to pursue new hobbies and activities right away in retirement. You might even be fortunate enough to have sufficient funds from the sale of a larger home to pay for a smaller home with cash, thus eliminating or decreasing your mortgage payment, or significantly increasing cash flow.

But there may be advantages to delaying downsizing. If you wait to do it later in retirement, you might have a better sense of just how much you need to downsize to support your current lifestyle. Plus, timing your downsizing plans with a stronger real estate market could mean that you sell and/or purchase a new home at a more opportune time.

### 3. Be realistic about costs

There are several costs to think about if you are downsizing your home: the worth of your current home, the cost of a new home, and the fees and expenses associated with relocating. Before you start boxing up your belongings, run the numbers. Start by contacting local real estate agents to receive estimates of your home's value. Compare the estimates so you can develop an idea of how much you might be able to get for your home. Research online to see what homes in your neighborhood have

sold for recently — this can also help you determine your home's potential selling price.

Take similar steps when you look for your new home. One option that might be available is to rent a new house or apartment for a length of time before buying it. That way, you'll learn whether the home and the location suit you, helping you avoid buyer's remorse.

If you're buying a new home, don't forget to account for the down payment, home inspection, closing costs, and other associated charges. Factoring all of the numbers into the equation may reveal whether downsizing makes the most sense for you and your financial situation.

### 4. Consider downsizing your belongings, not just your home

For some people, downsizing might simply mean cutting down on clutter rather than relocating. It's easier said than done, particularly if you've amassed many belongings over time. When purging your home, consider the following:

- **Take your time.** Don't feel pressured to clear out your entire home in one fell swoop. Instead, make a plan to do one room or section of your home at a time.
- **Involve your children.** If you have kids, consider asking them for their help. Many hands make light work, and your children may end up expressing interest in items they would like to have.
- **Sell valuables.** Maybe you can't find a new home for that antique necklace you never wear or the rare baseball cards collecting dust in your attic. Consider having those items appraised and selling them to an auction house or online. Depending on how many items you're selling and their worth, you could wind up with quite a bit of money that you can use to help cushion your retirement fund.
- **Donate gently used items.** Find out if there are any local organizations in your community that could benefit from furniture, clothing, or any other possessions in good condition that you want to get rid of. Some donation outlets may even offer free pickup of certain items, saving you time and hassle.
- **Clear out junk.** Chances are you've accumulated items that you simply won't be able to give away or sell. Discard belongings that serve no purpose other than taking up space in your home. You might be surprised by how much room you could free up.



*The best time to start a conversation with your parents about their future needs and wishes is when they are still relatively healthy. Otherwise, you may find yourself making critical decisions on their behalf without a roadmap.*

*Note: There are costs and ongoing expenses associated with the creation of trusts.*

*Note: A complete statement of long-term care insurance coverage, including exclusions, exceptions, and limitations, is found only in the long-term care insurance policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.*

## Don't Wait to Ask Aging Parents These Important Questions

It's human nature to put off complicated or emotionally heavy tasks. Talking with aging parents about their finances, health, and overall well-being might fall in this category. Many adult children would rather avoid this task, as it can create feelings of fear and loss on both sides. But this conversation — what could be the first of many — is too important to put off for long. The best time to start is when your parents are relatively healthy. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis without a roadmap.

Here are some questions to ask them that might help you get started.

### Finances

- What institutions hold your financial assets? Ask your parents to create a list of their bank, brokerage, and retirement accounts, including account numbers, name(s) on accounts, and online user names and passwords, if any. You should also know where to find their insurance policies (life, home, auto, disability, long-term care), Social Security cards, titles to their house and vehicles, outstanding loan documents, and past tax returns. If your parents have a safe-deposit box or home safe, make sure you can access the key or combination.
- Do you need help paying monthly bills or reviewing items like credit card statements, medical receipts, or property tax bills? Do you use online bill pay for any accounts?
- Do you currently work with any financial, legal, or tax professionals? If so, ask your parents if they want to share contact information and whether they would find it helpful if you attended meetings with them.
- Do you have a durable power of attorney? A durable power of attorney is a legal document that allows a named individual (such as an adult child) to manage all aspects of a parent's financial life if the parent becomes disabled or incompetent.
- Do you have a will? If so, find out where it is and who is named as executor. If the will is more than five years old, your parents may want to review it to make sure their current wishes are represented. Ask if they have any specific personal property disposition requests that they want to discuss now.
- Are your beneficiary designations up-to-date? Beneficiary designations on your parents' insurance policies, pensions, IRAs, and investment accounts will trump any instructions in their will.
- Do you have an overall estate plan? A trust? A living trust can be used to help manage an

estate while your parents are still living. If you'd like to learn more, consult an estate planning attorney.

### Health

- What doctors do you currently see? Are you happy with the care you're getting? If your parents begin to need multiple medical specialists and/or home health services, you might consider hiring a geriatric care manager, especially if you don't live close by.
- What medications are you currently taking? Are you able to manage various dosage instructions? Do you have any notable side effects? At what pharmacy do you get your prescriptions filled?
- What health insurance do you have? In addition to Medicare, which starts at age 65, find out if your parents have or should consider Medigap insurance — a private policy that covers many costs not covered by Medicare. You may also want to discuss the need for long-term care insurance, which helps pay for extended custodial or nursing home care.
- Do you have an advance medical directive? This document expresses your parents' wishes regarding life-support measures, if needed, and designates someone who will communicate with health-care professionals on their behalf. If your parents do not want heroic life-saving measures to be undertaken for them, this document is a must.

### Living situation

- Do you plan to stay in your current home for the foreseeable future, or are you considering downsizing?
- Is there anything I can do now to make your home more comfortable and safe? This might include smaller projects such as installing hand rails and night lights in the bathroom, to larger projects such as moving the washing machine out of the basement, installing a stair lift, or moving a bedroom to the first floor.
- Could you benefit from a weekly or monthly cleaning service?
- Do you employ certain people or companies for home maintenance projects (e.g., heating contractor, plumber, electrician, fall cleanup)?

### Memorial wishes

- Do you want to be buried or cremated? Do you have a burial plot picked out?
- Do you have any specific requests or wishes for your memorial service?

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## What are some tips for creating a budget and sticking to it?

It's a common problem for many individuals — wondering exactly where your paycheck goes each month. After paying expenses, such as your mortgage, utilities, and credit card bills, you may find little left to put toward anything else.

Creating a budget is the first key to successfully manage your finances. Knowing exactly how you are spending your money each month can set you on a more clear path to pursue your financial goals. If you become sidetracked when it comes to your finances, consider these tips for creating a budget and staying on the right path.

**Examine your financial goals.** Start out by making a list of your short-term goals (e.g., new car, vacation) and long-term goals (e.g., your child's college education, retirement) and prioritize them. Consider how much you will need to save and how long it will take to reach each goal.

**Identify your current monthly income and expenses.** Add up all of your income. In addition to your regular salary and wages, be sure to include other types of income, such as

dividends, interest, and child support. Next, add up all of your expenses. Sometimes it helps to divide expenses into two categories: fixed (e.g., housing, food, transportation) and discretionary (e.g., entertainment, vacations). Don't forget to factor in any financial goals you would like to pursue.

**Evaluate your budget.** Once you've added your income and expenses, compare the two totals. Ideally, you should be spending less than you earn. If this is the case, you're on the right track, and you'll need to look at how well you use your extra income toward achieving your financial goals. On the other hand, if you are spending more than you earn, you should make some adjustments to your budget. Look for ways to increase your income or reduce your expenses, or both.

**Monitor your budget.** Finally, you should monitor your budget periodically and make changes when necessary. Keep in mind that any budget that is too rigid is likely to fail. Keep your budget flexible as your changing circumstances demand.



I'VE GOT A BAD FEELING ABOUT THIS.