Building Capital

FinArc Investments Newsletter

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With the holiday season upon us, your friends at FinArc Investments have your personal and financial well-being firmly in mind.

In a nod to our many successful clients who are women entrepreneurs, we offer some food for thought custom tailored just for you. Parents and grandparents frequently look to FinArc for advice in saving for college, so we have provided some guidance on that topic this quarter as well.You can also check out some broader ideas for your tax and estate planning.

A quick comment on the Fed... Though it is not certain, FinArc anticipates the first Fed hike will occur in December. While rising interest rates *can be* a drag on financial markets, we think a return to more normal interest rate levels is a positive development. It reflects a relatively strong and still improving economy. Regardless of the market response, as always, keep your focus on the long term.

Matt, Patricia, Liv, Paul and John join together in wishing you the very best as we close out 2015 and bring in the new year.

Fourth Quarter 2015

Tips for Women Entrepreneurs

According to the National Women's Business Council, nearly 8 million women-owned businesses exist in the United States. Women-owned firms comprise 28.7% of all nonfarm businesses and generate more than $1.2 trillion in revenue. Interestingly, 88.3% of women-owned businesses have no employees, indicating that many women strike out on their own, perhaps to better balance work and family.[1] If you're considering the launch of a new venture (or know someone who is), the following information may be helpful.

Facing unique challenges

Although there are no gender differences in the steps involved in starting a business, women may indeed face unique challenges when it comes to implementing those steps.

According to a Babson College study, women entrepreneurs tend to have less confidence than their male peers. Among those who have identified new business opportunities, 34% of women admit to a fear of failure, compared with 29% of men, and less than half of women believe they have the capabilities to start a business, compared with 63% of men.[2]

Women may also face challenges in securing venture capital (VC) funding. In a different study, Babson researchers found that 85% of all VC-funded companies have no women on the executive team, and only 2.7% of VC-funded companies are led by a woman CEO. However, VC firms with women partners were more than twice as likely to invest in firms with women on the executive team and more than three times as likely to fund a company with a woman at the helm.[3]

Overcoming the obstacles

So what should a woman with a great business idea do?

First and most important, define what success means to you. Do you want a thriving operation with dozens of employees, or are you looking for self-employment to bring in additional income while allowing more time for family needs? Or maybe it's something in between? Be sure you have a clear vision of your dream before you launch.

Understand that preparation and knowledge are keys to building confidence. Develop a written business plan that describes your business's products and/or services, target market, marketing and sales strategy, opportunities and challenges, competition and how you will address it, and other key success factors. This document and the hard work involved in preparing it will be especially important if you plan to seek financing from lenders, angel investors, VC firms, or other outside sources. The required research will help prepare you to answer the tough questions from potential financiers.

Know that successful entrepreneurs are typically willing to take calculated risks. Don't let fear drive your decision making. Once again, preparation is important, but don't let your analysis end up in paralysis.

Be sure you have enough funds set aside to survive the start-up phase, which can last as little as a few weeks or as long as several years, depending on your business. Having enough money to live on during this period may further bolster your confidence, reduce fear of failure, and support wise risk taking.

Finally, take heart in knowing help is available. The Small Business Administration, Women's Business Centers, and Community Development Financial Institutions (CDFIs) across the country provide resources and information especially for women business owners.

[1] National Women's Business Council fact sheet, June 2015

[2] Babson College, *Global Entrepreneurship Monitor, 2013 United States Report*

[3] Babson College, *Women Entrepreneurs 2014: Bridging the Gender Gap in Venture Capital*

FINARC INVESTMENTS

2015 Year-End Tax Planning Basics

AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home; and the exercise of incentive stock options.

Required minimum 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 the amount that should have been distributed.

As the end of the 2015 tax year approaches, set aside some time to evaluate your situation and consider potential opportunities. Effective year-end planning depends on a good understanding of both your current circumstances and how those circumstances might change next year.

Basic strategies

Consider whether there's an opportunity to defer income to 2016. For example, you might be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. When you defer income to 2016, you postpone payment of the tax on that income. And if there's a chance that you might be paying taxes at a lower rate next year (for example, if you know that you'll have less taxable income next year), deferring income might mean paying *less* tax on the deferred income.

You should also look for potential ways to accelerate 2016 deductions into the 2015 tax year. If you typically itemize deductions on Schedule A of Form 1040, you might be able to accelerate some deductible expenses--such as medical expenses, qualifying interest, or state and local taxes--by making payments before the end of the current year, instead of paying them in early 2016. Or you might consider making next year's charitable contribution this year instead. If you think you'll be itemizing deductions in one year but claiming the standard deduction in the other, trying to defer (or accelerate) Schedule A deductions into the year for which you'll be itemizing deductions might let you take advantage of deductions that would otherwise be lost.

Depending on your circumstances, you might also consider taking the opposite approach. For example, if you think that you'll be paying taxes at a higher rate next year (maybe as the result of a recent compensation increase or the planned sale of assets), you might want to look for ways to accelerate income into 2015 and possibly defer deductions until 2016 (when they could potentially be more valuable).

Complicating factors

First, you need to factor in the alternative minimum tax (AMT). The AMT is essentially a separate, parallel federal income tax system with its own rates and rules. If you're subject to the AMT, traditional year-end strategies may be ineffective or actually have negative consequences--that's because the AMT effectively disallows a number of itemized deductions. So if you're subject to the AMT in 2015, prepaying 2016 state and local taxes probably won't help your 2015 tax situation, and, in fact, could hurt your 2016 bottom line.

It's also important to recognize that personal and dependency exemptions may be phased out and itemized deductions may be limited once your adjusted gross income (AGI) reaches a certain level. This is especially important to factor in if your AGI is approaching the threshold limit and you're evaluating whether to accelerate or defer income or itemized deductions. For 2015, the AGI threshold is $258,250 if you file as single, $309,900 if married filing jointly, $154,950 if married filing separately, and $284,050 if head of household.

IRA and retirement plan contributions

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2015 taxable income. (Note: A number of factors determine whether you're eligible to deduct contributions to a traditional IRA.) Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars--so there's no immediate tax savings--but qualified distributions are completely free of federal income tax.

For 2015, you're generally able to 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 2015 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 2015 IRA contributions.

Important notes

The Supreme Court has legalized same-sex marriage nationwide, significantly simplifying the federal and state income tax filing requirements for same-sex married couples living in states that did not previously recognize their marriage.

A host of popular tax provisions (commonly referred to as "tax extenders") expired at the end of 2014. Although it is possible that some or all of these provisions will be retroactively extended, currently they are not available for the 2015 tax year. Among the provisions: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.

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Frequently Asked Questions on Opening a 529 Plan Account

529 plan assets surpass $230 billion

Assets in 529 college savings plans reached $231.9 billion in the first quarter of 2015, a 10.1% increase over the first quarter of 2014. (Source: Strategic Insight, 2015)

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.*

529 plans are savings vehicles tailor-made for college. Anyone can open an account, lifetime contribution limits are typically over $300,000, and 529 plans offer federal and sometimes state tax benefits if certain conditions are met. Here are some common questions on opening an account.

Can I open an account in any state's 529 plan or am I limited to my own state's plan?

Answer: It depends on the type of 529 plan. There are two types of 529 plans: college savings plans and prepaid tuition plans. With a college savings plan, you open an individual investment account and direct your contributions to one or more of the plan's investment portfolios. With a prepaid tuition plan, you purchase education credits at today's prices and redeem them in the future for college tuition. Forty-nine states (all but Wyoming) offer one or more college savings plans, but only a few states offer prepaid tuition plans.

529 college savings plans are typically available to residents of any state, and funds can be used at any accredited college in the United States or abroad. But 529 prepaid tuition plans are typically limited to state residents and apply to in-state public colleges.

Why might you decide to open an account in another state's 529 college savings plan? The other plan might offer better investment options, lower management fees, a better investment track record, or better customer service. If you decide to go this route, keep in mind that some states may limit certain 529 plan tax benefits, such as a state income tax deduction for contributions, to residents who join the in-state plan.

Is there an age limit on who can be a beneficiary of a 529 account?

Answer: There is no beneficiary age limit specified in Section 529 of the Internal Revenue Code, but some states may impose one. You'll need to check the rules of each plan you're considering. Also, some states may require that the account be in place for a specified minimum length of time before funds can be withdrawn. This is important if you expect to make withdrawals quickly because the beneficiary is close to college age.

Can more than one 529 account be opened for the same child?

Answer: Yes. You (or anyone else) can open multiple 529 accounts for the same beneficiary, as long as you do so under different 529 plans (college savings plan or prepaid tuition plan). For example, you could open a college savings plan account with State A and State B for the same beneficiary, or you could open a college savings plan account and a prepaid tuition plan account with State A for the same beneficiary. But you can't open two college savings plan accounts in State A for the same beneficiary.

Also keep in mind that if you do open multiple 529 accounts for the same beneficiary, each plan has its own lifetime contribution limit, and contributions can't be made after the limit is reached. Some states consider the accounts in other states to determine whether the limit has been reached. For these states, the total balance of all plans (in all states) cannot exceed the maximum lifetime contribution limit.

Can I open a 529 account in anticipation of my future grandchild?

Answer: Technically, no, because the beneficiary must have a Social Security number. But you can do so in a roundabout way. First, you'll need to open an account and name as the beneficiary a family member who will be related to your future grandchild. Then when your grandchild is born, you (the account owner) can change the beneficiary to your grandchild. Check the details carefully of any plan you're considering because some plans may impose age restrictions on the beneficiary, such as being under age 21. This may pose a problem if you plan to name your adult son or daughter as the initial beneficiary.

What happens if I open a 529 plan in one state and then move to another state?

Answer: Essentially, nothing happens if you have a college savings plan. But most prepaid tuition plans require that either the account owner or the beneficiary be a resident of the state operating the plan. So if you move to another state, you may have to cash in the prepaid tuition plan.

If you have a college savings plan, you can simply leave the account open and keep contributing to it. Alternatively, you can switch 529 plans by rolling over the assets from that plan to a new 529 plan. You can keep the same beneficiary when you do the rollover (under IRS rules, you're allowed one 529 plan same-beneficiary rollover once every 12 months), but check the details of each plan for any potential restrictions. If you decide to stay with your original 529 plan, just remember that your new state might limit any potential 529 plan tax benefits to residents who participate in the in-state plan.

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What do I need to do to create a will?

A will is a legal document that is generally used to describe how you want your estate to be distributed after your death. It might also be used to name an executor for your estate or a guardian for your minor children. It is generally a good practice to name backup beneficiaries, executors, and guardians just in case they are needed. Even though it's not a legal requirement, a will should generally be drafted by an attorney.

In order to make a will, you must be of legal age (18 in most states). You must also understand what property you own, who the family members or friends it would seem natural to leave property to are, and who gets what under your will.

Generally, a will is a written document that must be executed with appropriate formalities. You should sign the document (or direct someone else to sign for you in your presence). The will should also be signed by at least two witnesses who are of legal age and understand what they are witnessing; some states require three witnesses. The witnesses should not benefit from any provisions in the will. Some states also require that a will be notarized.

Some states allow a will that is entirely in your handwriting, known as a "holographic" will. Some states allow a "nuncupative" will, which is an oral will you dictate during your last illness, before witnesses, that is later converted to writing.

Note that certain property is not transferred by a will. For example, property you hold in joint tenancy or tenancy by the entirety passes to the surviving joint owner(s) at your death. Also, certain property (e.g., life insurance, qualified retirement plans, IRAs, Totten Trust accounts, Payable on Death accounts, Transferrable on Death accounts) passes directly to the designated beneficiary at your death, bypassing the probate process.

Your will does not take effect until you die. You can create a new will or revoke or amend an existing will up until your death.